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RAPID DATA SYSTEMS & EQUIPMENT LTD ANNUAL REPORT 1969



1969

RAPID DATA SYSTEMS & EQUIPMENT LTD.

AR 35

LA COMPAGNIE DE SYSTEMES ET
EQUIPEMENT RAPID DATA LTEE

INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This circular is furnished in connection with the solicitation by the management of RAPID DATA SYSTEMS & EQUIPMENT LTD. - LA COMPAGNIE DE SYSTEMES ET EQUIPEMENT RAPID DATA LTEE (hereinafter referred to as the "Company") of proxies to be voted at the Annual Meeting of Shareholders of the Company (hereinafter referred to as the "Meeting") to be held at the time and place and for the purposes set forth in the accompanying notice of the Meeting. The solicitation is intended to be primarily by mail and the cost thereof will be borne by the Company.

APPOINTMENT AND REVOCATION OF PROXIES

THE PERSONS DESIGNATED IN THE ACCOMPANYING FORM OF PROXY ARE OFFICERS OF THE COMPANY. A SHAREHOLDER HAS THE RIGHT TO APPOINT SOME OTHER PERSON, WHO NEED NOT BE A SHAREHOLDER, TO REPRESENT HIM AT THE MEETING AND HE MAY EXERCISE THIS RIGHT BY STRIKING OUT THE NAMES OF THE PERSONS DESIGNATED AND BY INSERTING SUCH OTHER PERSON'S NAME IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY.

A shareholder who has given a proxy in the accompanying form has the power to revoke it at any time before it is exercised.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The outstanding voting shares of the Company as at the close of business on December 5, 1969 consisted of 1,234,200 common shares without nominal or par value (hereinafter called "Common Shares") in the capital of the Company, each share being entitled to one vote.

The Transfer Books of the Company will not be closed. Common Shareholders of record at the commencement of the Meeting shall be entitled to vote thereat.

To the knowledge of the directors and senior officers of the Company the following are the only beneficial owners

directly or indirectly of equity shares of the Company which carry more than 10% of the voting rights attached to all equity shares of the Company:

<u>Name and Address</u>	<u>Designation of Class</u>	<u>Type of Ownership</u>	<u>Number of Shares</u>	<u>Percentage of Class</u>
Eric Alan (Clive) Raymond 265 Russell Hill Road Toronto, Ontario	Common	Beneficial	191,991	15.6%

ELECTION OF DIRECTORS

The board consists of seven directors to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below. Management does not contemplate that any of the nominees will be unable to serve as a director but, if that should occur for any reason prior to the meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion. Except as aforesaid each director elected will hold office until the next annual meeting or until his successor is otherwise duly elected in accordance with the by-laws.

The following table and the notes thereto states the names of all the persons proposed to be nominated for election as directors, all other positions and offices with the Company now held by them, their principal occupations or employments during the past 5 years, the date on which they became directors of the Company and the approximate number of shares of the Company beneficially owned directly or indirectly by each of them.

<u>Name and principal occupation</u>	<u>Director of the Company since</u>	<u>Common Shares beneficially owned directly or indirectly as of the date of the notice of the meeting</u>
Eric Alan (Clive) Raymond - Executive President of the Company	February 7, 1962	191,991
William Joseph Smith - Operations Manager of Aetna Factors Corpora- tion Ltd. until October, 1966, now Vice-President - Administration and Secretary- Treasurer of the Company	October 11, 1967	30,000

<u>Name and principal occupation</u>	<u>Director of the Company since</u>	<u>Common Shares beneficially owned directly or indirectly as of the date of the notice of the meeting</u>
Bryan MacIntosh Benitz - Investment Dealer, Director, Wisener and Partners Company Limited	August 23, 1966	120,540
Richard Charles Wilfred Mauran - Executive, Chairman of the Board of Harveys Foods Limited	April 5, 1968	1
John Warren Nevil Thomas - Executive, Investment Analyst, now a partner Midland-Osler Securities Limited	April 5, 1968	2,150
Hector Theodore Marshall -Prior to May 1969 Local Director of Marketing, Roneo Limited of England; prior to March 1968, National Sales Manager Roneo Limited of England, now Vice-President, Marketing	May 16, 1969	100
John Conway Stradwick - Prior to April 1968, Executive Vice-President, Simcoe & Erie General Insurance Company, Executive Vice-President, Bay City General Insurance Company, now; President, Reliable Life Insurance Company, President Simcoe & Erie General Insurance Company President Bay City General Insurance Company.	-	1,000

Common Shares beneficially owned directly or indirectly as of the date of the notice of the meeting.

120,840

Director of the Company since August 23, 1988

August 23, 1988

Name and principal occupation

Bryan Macintosh
Berlin - Investment
Banker, Director,
Wisehart and Partners
Company Limited

1

April 8, 1988

Richard Charles
Wisehart -
Executive, Chairman
of the Board of Harvey
Foods Limited

2,150

April 8, 1988

John Warren Neill
Thomas - Executive,
Investment Analyst,
now a partner Mischke
Geller Securities
Limited

100

May 10, 1988

Hector Theodore
Marshall - Prior to
May 1988 Local Director
of Marketing, Ronco Limited
of England, prior to March
1988, National Sales Manager
Ronco Limited of
England, now Vice
President, Marketing

1,000

John Conway Birchwick -
Prior to April 1988,
Executive Vice-President,
Stimco & Erie General
Insurance Company, Executive
Vice-President, Bay City
General Insurance Company,
now President, Reliable
Life Insurance Company,
President Stimco & Erie
General Insurance Company
President Bay City General
Insurance Company

NOTES

1. Jill Raymond, the wife of Mr. Raymond, is the beneficial owner of 50 Common Shares.
2. 24,000 Common Shares owned by Tri-Maple Limited, an associate of B.M. Benitz, are included in the number of Common Shares set opposite Mr. Benitz's name.
3. Industrial Growth Fund Limited, an associate of Mr. Mauran, holds \$100,000 7% Subordinated Notes due September 6, 1974 and convertible into 30,769 Common Shares.
4. The information as to shares beneficially owned, not being within the knowledge of the Company, has been furnished by the respective directors individually.
5. Unless otherwise stated above, each of the above named persons has held the principal occupation indicated for at least five years.
6. As parties to an underwriting agreement date as of October 6, 1967, as amended, Eric Alan Raymond and Bryan MacIntosh Benitz, have agreed to vote all shares of the Company owned or controlled by them to elect or cause to be elected and kept elected to the board of directors of the Company two nominees of Midland-Osler Securities Limited until the annual meeting of the Company held in the calendar year 1973. Pursuant to the said agreement Midland-Osler Securities Limited have nominated Messrs. Mauran and Thomas for election as directors.

REMUNERATION OF DIRECTORS AND OFFICERS

The by-laws of the Company provide, in effect, that the board is authorized to fix from time to time by resolution, the remuneration of the directors.

The amount of the aggregate direct remuneration paid or payable by the Company and its subsidiaries to the senior officers of the Company for the year ended June 30, 1969 was \$91,687 and for the ensuing period until September 30, 1969 was \$24,040. No remuneration was paid to directors as such during either of the said periods. No pension or retirement benefits are payable to directors or officers except under the Canada Pension Plan.

Pursuant to two agreements dated as of October 6, 1967 and one agreement dated May 1, 1969 between the Company and its President and its two Vice-Presidents, the President of the Company and its two Vice-Presidents are to receive a combined total annual remuneration of \$55,000 plus 10% of the net profits of the Company before income taxes payable by the Company.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANACTIONS

1. Pursuant to an agreement dated September 4, 1968 between the Company and Midland-Osler Securities Limited the Company appointed Midland-Osler Securities Limited agent for the selling of \$200,000 principal amount of 7% Subordinated Notes dated September 6, 1968. The expenses of the transaction in the aggregate were in the amount of \$5,880, which included a selling commission in the amount of \$2,500 payable to Midland-Osler Securities Limited.

John Warren Nevil Thomas, a director of the Company, was then also a senior employee of Midland-Osler Securities Limited; and Richard Charles Wilfred Mauran, a director of the Company, was then also a director of Industrial Growth Management Limited which purchased \$100,000 principal amount of the 7% Subordinated Notes.

2. On November 8, 1968 the Company sold to Tri-Maple Limited 24,000 Common Shares at an aggregate price of \$98,400. Bryan Macintosh Benitz, a director of the Company, was a director of and the controlling shareholder of Tri-Maple Limited.

3. On February 19, 1969 the Company granted certain employee options to purchase, as fully paid and non-assessable, on or before December 31, 1973 at the price of \$6.50 per share, Common Shares in its capital.

Subsequently one such employee, namely Hector Theodore Marshall of Browside Avenue, Toronto, Ontario, was elected a director of the Company. Mr. Marshall's option relates to 10,000 Common Shares.

4. On August 27, 1969 the Company sold 50,200 Common Shares in consideration of \$301,200. Of these 50,200 Common Shares 4,200 were sold to Eric Alan (Clive) Raymond, the President and a director of the Company.

5. Supplementary Letters Patent dated December 18, 1969 confirming Special By-law No. 0 increasing the authorized capital of the Company by, inter alia, creating 200,000 6% cumulative, redeemable, convertible preferred shares with a par value of \$7.25 each (hereinafter called "Preferred Shares") in the capital of the Company have been duly issued to the Company. Pursuant to an underwriting agreement dated October 24, 1969 between the Company and Midland-Osler Securities Limited (hereinafter called the "Underwriter"), the Underwriter agreed to subscribe for and buy and the Company agreed to issue and sell all the 200,000 Preferred Shares for an aggregate consideration of \$1,450,000. On December 22, 1969 the Company sold all the 200,000 Preferred Shares pursuant to the underwriting agreement. The company has paid the Underwriter a commission of \$101,500 and will pay all expenses incurred in connection with the issue. John Warren Nevil Thomas, a director of the Company, is also a director of the Underwriter.

APPOINTMENT OF AUDITORS

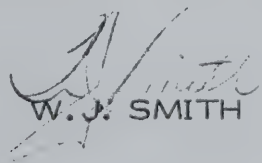
The persons named in the enclosed form of proxy intend to vote for the re-appointment of Messrs. McDonald, Currie & Co., Chartered Accountants, Toronto, as auditors of the Company. They have been auditors of the Company since June 4, 1968.

GENERAL

All shares represented by proxies will be voted.

The accompanying form of proxy, when properly signed, confers discretionary authority with respect to amendments or variations to matters identified in the accompanying notice of the Meeting and other matters which may properly come before the Meeting and any and all adjournments thereof. The management of the Company presently knows of no matters to come before the Meeting other than those referred to in the notice of the Meeting.

DATED at Toronto, Ontario, this 22nd day of December 1969.


W. J. SMITH

Secretary-Treasurer.



Officers

ERIC ALAN (CLIVE) RAYMOND, President

WILLIAM J. SMITH, Vice President, Secretary treasurer

HECTOR T. MARSHALL, Vice President

Directors

BRYAN M. BENITZ

Director of Wisener and Partners Co. Ltd.

DAVID GOODMAN

Secretary treasurer, Rapid Press Ltd.

HECTOR T. MARSHALL

Vice President

Chief marketing officer of the Company

RICHARD C. W. MAURAN

Chairman of the Board, Harvey's Foods Ltd.

Chairman of the Board, Grissol Foods Ltd.

ERIC ALAN (CLIVE) RAYMOND

President

Chief executive officer of the Company

WILLIAM J. SMITH

Vice President, secretary treasurer

Chief financial officer of the Company

J. W. NEVIL THOMAS

Director, Midland, Osler Securities Ltd.

Transfer Agents

Guaranty Trust Company of Canada

366 Bay Street, Toronto, Ontario.

427 St. James Street West, Montreal, Quebec

Auditors

McDONALD CURRIE & CO.

Chartered Accountants

Bankers

Canadian Imperial Bank of Commerce

25 King Street West, Toronto.

Offices 259 Lake Shore Blvd. E., Toronto 2, Ont., 330 Rue St. Roch, Quebec, Que.
750 Lucerne Rd., Town of Mount Royal, Montreal, Que., 450 Rochester St.,
Ottawa, Ont., 367 Main St. W., Hamilton, Ont., 513 Bradford St., Winnipeg, Man.
1933 Tenth St. S.W., Calgary, Alta., 46 East 6th Ave., Vancouver, B.C.



Your directors are pleased to present the company's financial statements for the year ended June 30, 1969, and to review the growth and expansion in your company's activities.

The period under review witnessed a complete turn-around in the company's financial situation. After five years of sustained competitive efforts in a market dominated by large foreign corporations and their Canadian subsidiaries, Rapid Data has become an integrated force in the office systems, equipment and supply fields in Canada.

Sales for the year ended June 30, 1969 were \$2,331,648, an increase of more than 17% over last year's volume of \$1,989,573. Earnings were \$189,423 (after a downward adjustment of \$19,027 relating to a 1968 liability) compared to a loss of \$105,121 in 1968.

Due to prior years' losses, your company does not anticipate a tax liability with regard to 1969 profits.

Earnings would have been even higher had it not been for a major fire in one of Roneo's plants in England, which delayed postage meter deliveries, affecting adversely the fourth quarter sales and profits.

Shareholders will be pleased to know that the upward trend in sales and earnings is continuing. Unaudited results for the quarter ended September 30, 1969 show sales of \$759,790 and net earnings of \$99,554 or 8.3c per common share. This is a sharp gain over the comparable period last year when sales were \$536,667 and net earnings \$32,500 or 3.1c per common share.

Working Capital

Working capital increased during the period by \$466,943 reaching \$901,520 as of June 30, 1969.

During the year your company treasury obtained more than \$800,000 of which \$600,000 came through the sale of 124,000 common shares and \$200,000 through an issue of 7% subordinated convertible notes.

Subsequent to the year end of June 30, 1969, a private placement of 50,200 common shares of Rapid Data added \$301,200 to treasury funds.

The company has recently filed a prospectus with appropriate regulatory authorities in several provinces of Canada covering a proposed offering of 200,000 convertible preference shares at \$7.25 per share. Funds, when obtained, will be used to recover outstanding bank loans, to finance the company's rapidly growing postage meter leasing operations and to supplement working capital.

Recent Acquisitions

As previously announced, Rapid Data acquired a computer services operation in Hamilton on April 1, 1969, for 10,000 common shares. This facility, previously owned by a group of insurance companies, now operates under the name of Rapid Data Computer Services (Hamilton) Ltd., as a wholly-owned subsidiary.

Using a leased Honeywell 120/16K computer, this subsidiary, continues to serve the vendor group of insurance firms under a five-year contract. Since acquiring the facility, its basic services have been expanded to include other clients, and computer utilization has already been increased to two shifts.

In another recent corporate move, your company has agreed, subject to certain conditions, to purchase Cellulose Products Corporation of Southgate, California. This acquisition will again be for Rapid Data shares and will not involve any cash consideration.

Cellulose Products manufactures credit cards and provides embossing services to its customers. It also sells credit cards and imprinting machines directly to consumers. This is a rapidly expanding market and your directors consider this acquisition an important step in our continuing growth. When and if completed, it will give Rapid Data its first foothold in the United States' market, and will greatly benefit Cellulose Products Corporation by providing new Canadian outlets for credit cards.

New Products

The year under review was highlighted by the successful introduction by Rapid Data of two excellent products.

In late 1968, the company was granted an exclusive franchise to market in Canada "Neopost" postage meters manufactured by a subsidiary of Roneo Vickers in England. Until early this year, one manufacturer held more than 95% of the postage meter market in Canada. Since February, 1969, your company has been successful in breaking into this profitable market and has secured orders for more than 300 Neopost postage meters.

Supplies of the postage meters have improved since the fire at Roneo's plant mentioned earlier, and deliveries made during the first quarter of the current fiscal year exceeded those made during the preceding six months.

Your directors are pleased with Neopost marketing results attained so far and expect that the company will substantially increase its sales in this field during the current year. Neopost machines have been marketed in the United Kingdom for many years and hold more than 50% of the total U.K. market.

The newest, and perhaps the most promising product offered by your company in Canada and abroad, is the U.S. developed and manufactured "Randomatic". This unusual equipment embodies an electro-mechanical data retrieval system which has numerous and varied applications in many fields of commerce and industry. Our initial sales efforts have been most successful with real estate brokers, personnel placement agencies and other industries.

In addition to marketing this product range in Canada, your company has recently secured the world-wide marketing franchise (excluding the U.S.) for Randomatic equipment. We are in the process of concluding an exclusive sub-franchise agreement with Roneo Vickers of England for the distribution of Randomatic in the United Kingdom and a further agreement with Roneo's marketing organization in France. The Roneo Vickers agreement will provide for options extending the sub-franchise territory to include

Norway, Sweden as well as Australia and South Africa—all countries where Roneo Vickers has established its own subsidiaries.

Your company has just reached agreement with Nissho Iwai Co. Ltd. of Tokyo and its subsidiary, Nissho Electronics Corp. on a long term marketing program of Randomatic equipment in Japan.

These sub-franchise arrangements abroad open a whole new vista of possible exports of other products on which your company may obtain exclusive marketing rights.

We have also made sales and marketing gains in other product divisions, including our duplicating equipment, mailing systems, data retrieval and addressing systems.

Outlook

We are optimistic about the company's future.

Our goal for the current year is to increase our successful penetration of the Canadian market and, simultaneously, to expand our operations abroad.

Your directors have placed great stress on the build-up of a high quality senior and middle management team. Our marketing approach, based on the principle of separate sales forces for each product group allows high specialization and concentration of sales effort. During the past year, a number of highly-skilled and experienced men have joined our executive and sales ranks.

With sales offices and representatives located across the country, Rapid Data is in an excellent position to take full advantage of the growing Canadian market—estimated to account for sales of \$750,000,000 in 1969 (including office systems, equipment, computers, but excluding supplies), a volume that has more than tripled in a decade.

As one of Canada's largest independent organizations in the field, Rapid Data offers both consumers and manufacturers nation-wide sales and service facilities.

Your management attaches great significance to the recently concluded sub-

franchising agreements for the sale of Randomatic equipment outside Canada, mentioned earlier, and to further arrangements now in various stages of negotiations. We are confident that Randomatic sales throughout the world will contribute greatly to the company's future overall earnings.

Our entry into the postage meter field should reward us considerably.

Additionally, we expect our computer utility in Hamilton to be fully utilized and running on a three-shift basis by the end of this year.

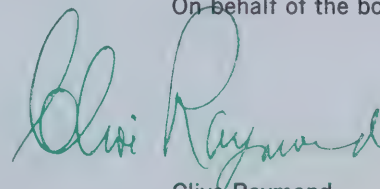
Exchange Listing

It is the intention of your directors to apply, as soon as feasible, for a stock exchange listing of Rapid Data's shares.

Before concluding, I wish to thank our employees at all levels of responsibility for their efforts which have contributed greatly to the progress of the company.

On behalf of the board of directors, I also take this opportunity of expressing our appreciation to all shareholders for their continuing trust and support.

On behalf of the board.



Clive Raymond,
President



... **Communications is a vital and integral part of the Canadian way of life and where communications are being created, filed, retrieved, billed, recorded, addressed or mailed—you'll find Rapid Data products.**

Five Main Divisions Help Canada to Communicate:

- **Duplicating Machines**
- **Filing & Record Systems**
- **Addressing Equipment**
- **Postage Machines**
- **Computer Service Bureau**

A teacher communicates geography to her class by means of a map produced from a stencil made on a Roneo-tronic machine; the map is reproduced 40 or more times in colour by a Roneo Duplicator. Rapid Data also sells the paper, the stencils and the ink.

An office manager communicates, via duplicator, to 400 or 4,000 employees quickly, accurately and at a low cost, and he usually files what he says. Millions of documents are filed every day in filing cabinets and lateral filing units, or recorded in Roneodex or Stripdex units, or if they are large items, like blueprints, are filed in Roneo-Vickers Planfiles. Rapid Data supplies filing folders as well as filing units, custom coloured, if desired, for an entire corporate complex.

To speed communication, our brand new Randomatic machine, which embodies an electro-mechanical data retrieval system, permits a real estate broker to have instant access to the right house for the right client or a personnel placement agency to locate the right man for the right job within seconds. It's a machine that has dozens of applications in practically every field of commerce and industry to help speed communication by means of instant retrieval.

A comptroller communicates to customers by means of Farrington's recording system which, in seconds, prints on an invoice the customer's name, address and other relevant data.

Hospitals throughout Canada keep track of patients, recording such data as name, sex, religion, doctor's name, blood group . . . 14 items on one metal plate or plastic card. Rapid Data sells embossing machines, high speed electronic printing machines—an entire range of equipment for this important need.

When someone wants to communicate via the mail they lease a Roneo-Vickers Neopost postage machine . . . when they must mail out in quantity . . . they invest in a Scriptomatic high speed addressing system . . . it could be a Union sending information to its members or a Club sending out subscription reminders.

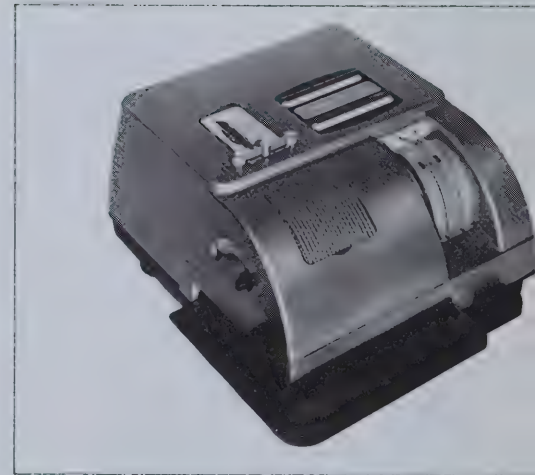
Finally, when someone wants to forecast, we have a Computer Service Bureau in Hamilton, Ontario, equipped with a Honeywell 120/16K computer. Preparing inventory data, stock control figures, payroll and performing numerous other functions, the service bureau is the final link in the Rapid Data communications chain.



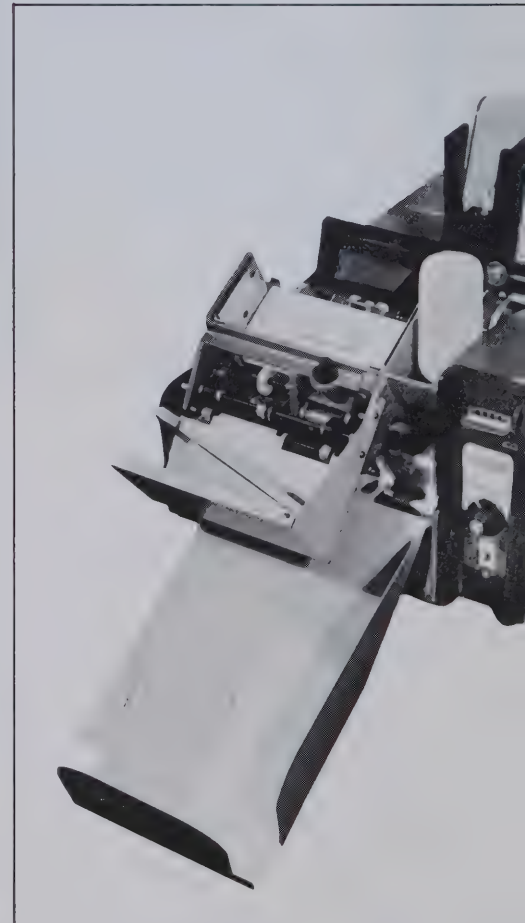
1 Randomatic Data Retrieval Unit

2 Neopost 505 Postage Meter

3 Roneo 865 Duplicator



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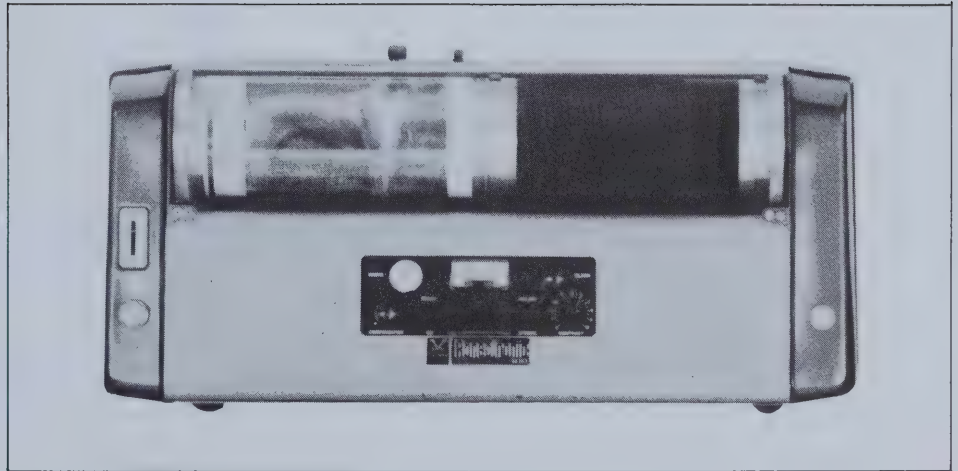
4 Roneo Lateral Filing

5 Neopost 205 Postage Meter

6 Roneotronic Electronic Stencil Cutter

7 Scriptomatic Model 74
Addressing Machine

8 Bradma Model 450 Imprinter



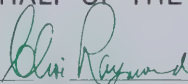
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**Consolidated
Balance Sheet**
as at June 30, 1969

	1969	1968		
Assets	\$	\$		
CURRENT ASSETS				
Cash.....	7,937	1,641		
Accounts receivable (note 2).....	797,199	530,370		
Inventory—at the lower of cost or net realiz- able value.....	981,050	637,050		
	<u>1,786,186</u>	<u>1,169,061</u>		
DEFERRED RECEIVABLE—Postage meter contracts (note 3).....	<u>72,473</u>	<u>—</u>		
FIXED ASSETS (note 10(c))				
	Cost	Accumulated depreciation		
	\$	\$		
Machinery and office equipment	170,422	95,684	74,738	48,936
Leasehold improvements	7,251	6,649	602	2,136
Computer software	93,690	—	93,690	—
	<u>271,363</u>	<u>102,333</u>	<u>169,030</u>	<u>51,072</u>
OTHER ASSETS				
Financing expenses less amortization (note 4)	5,879	—	5,879	— *
Incorporation expenses less amortization.....	2,200	10,932	2,200	10,932
Product development costs less amortization (note 9).....	204,708	59,699	204,708	59,699
	<u>212,787</u>	<u>70,631</u>	<u>212,787</u>	<u>70,631</u>
EXCESS OF PURCHASE PRICE OF BUSI- NESSES ACQUIRED OVER NET ASSETS.....	<u>154,920</u>	<u>145,878*</u>	<u>154,920</u>	<u>145,878*</u>
SIGNED ON BEHALF OF THE BOARD				
 Director	<u>2,395,396</u>	<u>1,436,642</u>	<u>2,395,396</u>	<u>1,436,642</u>
 Director				

*Reclassified for comparative purposes

	1969	1968
Liabilities	\$	\$
CURRENT LIABILITIES		
Bank advances (note 2).....	309,654	155,495
Accounts payable and accrued liabilities.....	567,752	565,807
Current portion of long-term debt.....	7,260	13,182
	<u>884,666</u>	<u>734,484</u>
DEFERRED REVENUE—Postage meters (note 3).....	18,409	—
LONG-TERM DEBT		
Advances from shareholders.....	—	115,256
8% Notes, Series A (note 5).....	688,000	850,000
7% convertible subordinated notes (note 6)....	200,000	—
Leases payable.....	8,990	23,016
	<u>896,990</u>	<u>988,272</u>
Less: Current portion.....	7,260	13,182
	<u>889,730</u>	<u>975,090</u>
Shareholders' Equity		
CAPITAL STOCK (notes 6, 7 and 10)		
Authorized—		
2,000,000 common shares without nominal or par value		
Issued and fully paid—		
1,184,000 common shares (1968—		
1,050,000 shares).....	1,450,434	742,034
CONTRIBUTED SURPLUS.....	1,575	1,575
DEFICIT.....	(849,418)	(1,016,541)*
	<u>602,591</u>	<u>(272,932)</u>
	<u>2,395,396</u>	<u>1,436,642</u>

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Rapid Data Systems & Equipment Ltd. and subsidiaries as at June 30, 1969 and the consolidated statements of earnings, deficit and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1969 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change described in note 4 with which we concur.

McDONALD CURRIE & CO.
Chartered Accountants

October 17, 1969

**Consolidated Statement
of Earnings**

for the year ended June 30, 1969

	1969	1968
	\$	\$
SALES.....	2,331,648	1,989,573
COST OF SALES.....	886,354	907,920
GROSS PROFIT.....	1,445,294	1,081,653
SELLING AND ADMINISTRATIVE EXPENSES (includes \$33,546 bank interest in 1969).....	1,100,511	1,035,960
	344,783	45,693
OTHER (INCOME) AND EXPENSE		
Remuneration of officer-directors (note 11)...	54,722	68,350
Interest on long-term debt.....	78,004	60,675
Profit on purchase of Series A notes.....	(49,111)	(17,029)
Depreciation.....	22,395	13,028
Amortization of incorporation and product development expenses.....	30,323	25,790
	136,333	150,814
	208,450	(105,121)
UNRECORDED LIABILITY FOR PURCHASES AT JUNE 30, 1968.....	19,027	—
	189,423	(105,121)
PROVISION FOR INCOME TAXES.....	68,000	—
PROFIT (LOSS) FOR THE YEAR BEFORE EXTRAORDINARY ITEM (10.70¢ per share)*.....	121,423	(105,121)
EXTRAORDINARY ITEM		
Reduction of income taxes on application of prior years' losses (5.99¢ per share)*.....	68,000	—
NET PROFIT (LOSS) FOR THE YEAR (16.69 cents per share).....	189,423	(105,121)

*Profit per share is computed on a weighted average of the number of shares outstanding during the year.

**Consolidated Statement
of Deficit**

for the year ended June 30, 1969

	1969	1968
	\$	\$
BALANCE—BEGINNING OF YEAR		
As previously reported.....	913,260	795,327
Expenses totalling \$116,093 relating to the issue of common shares and Series A notes in March 1968—considered to be an equity underwriting and therefore not chargeable against earnings (note 4).....	103,281	116,093
As restated.....	1,016,541	911,420
Net profit (loss) for the year.....	189,423	(105,121)
Expenses relating to the issue of common shares during the year.....	22,300	—
BALANCE—END OF YEAR.....	849,418	1,016,541

**Consolidated Statement
of Source and Use of Funds**
for the year ended June 30, 1969

	1969	1968
	\$	\$
SOURCE OF FUNDS		
Net profit (loss) for the year.....	189,423	(105,121)
Non-cash items—		
Depreciation and amortization	52,718	38,818
Profit on purchase of Series A notes	(49,111)	(17,029)
	193,030	(83,332)
Issue of convertible subordinated notes.....	200,000	—
Issue of common shares for cash.....	510,000	477,434
Deferred revenue.....	18,409	—
Issue of Series A notes.....	—	900,000
	921,439	1,294,102
USE OF FUNDS		
Purchase of Series A notes.....	112,889	32,971
Product development costs.....	166,601	22,653
Receivable on postage meter contracts.....	72,473	—
Additions to fixed assets.....	40,352	12,539
Repayment of advances from shareholders....	16,856	92,800
Financing costs.....	28,179	116,093
Repayment of mortgages and leases.....	8,104	265,274
Costs relating to businesses acquired.....	9,042	—
	454,496	542,330
INCREASE IN WORKING CAPITAL.....	466,943	751,772
WORKING CAPITAL—BEGINNING OF YEAR..	434,577	(317,195)
WORKING CAPITAL—END OF YEAR.....	901,520	434,577

for the year ended June 30, 1969

1. BASIS OF CONSOLIDATION

The accounts of all subsidiaries have been consolidated. Earnings from businesses acquired have been included in the consolidated statement of earnings from dates of acquisition.

2. SECURITY FOR BANK LOANS

Accounts receivable have been pledged as security for bank advances.

3. POSTAGE METER CONTRACTS

These are accounted for using the present value method, whereby the amounts to be received over the life of the contracts are brought into income at their present value in the year the contracts are made.

4. FINANCING EXPENSES

In March of 1968, the company issued 450,000 common shares in conjunction with \$900,000 Series A notes. The number of shares so issued represented 42.9% of the total number of shares outstanding. Because this was essentially an equity financing, the expenses of \$116,093 have been written off directly to deficit instead of amortizing them over the life of the notes. \$12,812 had been so amortized in 1968. The 1968 balance sheet and statements of earnings and deficit have been revised to give effect to this new treatment. Had the same basis of accounting been followed in 1969, the net profit for that year would have been \$12,428 less.

5. 8% NOTES, SERIES A

- (a) These notes mature on December 31, 1973 and are secured by a first fixed charge on all the issued and outstanding capital of R.D.M. Limited, a wholly-owned subsidiary, and a first floating charge on all of the other assets and undertaking of the company, subject to an exemption for current bank borrowings.
- (b) The trust deed provides for the establishment of a sinking fund for the redemption of Series A notes by December 31 in each of the following years (\$62,000 of the 1970 requirements of \$100,000 having been met):

	\$
1970	38,000
1971	150,000
1972	200,000
1973	300,000
	688,000

6. 7% SUBORDINATED NOTES

These notes are due September 6, 1974. Of the authorized and unissued common shares, 61,539 shares are reserved at a price of \$3.25 per share against the conversion right attaching to these notes.

7. DIVIDEND RESTRICTIONS

The provisions of the Trust Deed securing the 8% Notes, Series A, prohibit the payment of dividends except out of the aggregate of:

- (a) 75% of the consolidated net earnings after December 31, 1967 on a cumulative basis, and
- (b) \$50,000

provided that such payments will not reduce consolidated working capital or shareholders' equity (as defined) below \$500,000 and \$100,000 respectively.

8. INCOME TAXES

Losses of prior periods for tax purposes amounting to approximately \$635,000 are available to apply against future earnings.

9. PRODUCT DEVELOPMENT COSTS

These comprise salaries, travel expenses and other marketing costs related to the launching of new products. The unamortized balance at June 30, 1969 will be written off at approximately 20% per year. Expenses of this nature which are incurred in future years will be charged against earnings in the year incurred.

10. CAPITAL STOCK

During the year 134,000 additional common shares were issued as follows:

- (a) 100,000 shares for \$510,000 cash;
- (b) 24,000 shares for the reduction of advances from shareholders of \$98,400; and
- (c) 10,000 shares for fixed assets with a stated value of \$100,000.

Options have been granted to employees of the company to purchase 19,000 shares at \$6.50 per share, exercisable on or before December 31, 1973.

Subsequent to June 30, 1969, 50,200 common shares were issued for \$301,200 cash.

11. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid or payable by the company and its subsidiaries to the directors and senior officers amounts to \$91,687, which includes the amount of \$54,722 shown as directors' remuneration on the statement of earnings.



RAPID DATA
SYSTEMS & EQUIPMENT LTD.

259 LAKESHORE BLVD EAST TORONTO 2 ONTARIO TELEPHONE 368-6151

No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. These securities are offered by this prospectus only in jurisdictions where these securities may be lawfully offered.

NEW ISSUE

RAPID DATA SYSTEMS & EQUIPMENT LTD. LA COMPAGNIE DE SYSTEMES ET EQUIPEMENT RAPID DATA LTEE.

(Incorporated under the laws of Canada)

200,000

**6% Cumulative Redeemable Convertible Preferred Shares
with a par value of \$7.25 each**

PRICE: \$7.25 Per Share

	Price to Public	Proceeds to	
		Underwriter	Company (1)
Per Share	\$ 7.25	\$.5075	\$ 6.7425
Total	\$1,450,000	\$ 101,500	\$1,348,500

(1) Before deducting the expenses incurred for the offering estimated at \$35,000.

These securities are speculative. Reference is made to the heading "Speculative Nature of Securities" on page 5.

There is no market for the securities hereby offered, and the price was determined by negotiation between the Company and the Underwriters.

Reference is made to the restrictions on the payment of dividends described under the heading "Funded Debt", sub-heading "8% Notes, Series A" on pages 7 and 8.

The securities hereby offered do not carry voting rights save those referred to under the heading "6% Cumulative Redeemable Convertible Preferred Shares" on page 5.

We, as principals, offer these 6% Cumulative Redeemable Convertible Preferred Shares, if, as and when delivered to us and accepted by us and subject to the approval of all legal matters by Messrs. McLean, Lyons & Kerr on behalf of the Company and by Messrs. Campbell, Godfrey & Lewtas on our behalf. We reserve the right to accept applications for these 6% Cumulative Redeemable Convertible Preferred Shares in whole or in part or to reject any application. It is expected that definitive share certificates will be available for delivery on or about December 22, 1969.

MIDLAND-OSLER SECURITIES LIMITED

LONDON TORONTO MONTREAL
BRANTFORD CALGARY EDMONTON HAMILTON KITCHENER
REGINA SARNIA SASKATOON ST. THOMAS SAULT STE. MARIE
VANCOUVER VICTORIA WINNIPEG LONDON, ENG.

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THE COMPANY

Rapid Data Systems & Equipment Ltd. — La Compagnie de Systemes et Equipement Rapid Data Ltee. was incorporated as a private company under the Companies Act of Canada by Letters Patent dated February 6, 1962. Supplementary Letters Patent amending and varying the Letters Patent by reorganizing its capital and converting it into a public company are dated October 17, 1962, November 20, 1963, July 8, 1964, October 18, 1965 and November 20, 1967. Supplementary Letters Patent will be applied for to confirm the by-law of the Company creating the 6% Cumulative Redeemable Convertible Preferred Shares offered by this prospectus.

The Company operates directly and through two wholly owned subsidiary companies, R.D.M. Limited and Rapid Data Computer Services (Hamilton) Ltd. Three other wholly owned subsidiary companies, Scriptomatic (Canada) Limited, Rapid Data Inc. and Interlease Acceptance Limited, are presently inactive. Reference herein to the "Company" or "Rapid Data" shall mean Rapid Data Systems & Equipment Ltd. — La Compagnie de Systemes et Equipement Rapid Data Ltee. and the wholly owned subsidiary companies referred to above unless the context otherwise requires.

The Company's head office and principal office is located at 259 Lakeshore Boulevard East, Toronto, Ontario.

BUSINESS

The Office Equipment Industry

The post-war period has been characterized by spectacular changes in the office equipment industry. While less evident than in other industries, the revolution in office procedures, methods and work patterns has been none the less just as important. Routine office procedures, formerly achieved laboriously by hand have been converted to high speed efficient machine operations, sometimes highly automated. Labour productivity in office services has been vastly improved through the application of these new machines and techniques.

The substantial size of the market for office machinery, equipment and supplies is reflected in official statistics. The Dominion Bureau of Statistics reports that 1966 domestic consumption was \$594,386,000 with values based on factory shipping prices. Estimates by the Maclean-Hunter Research Bureau for 1968 total \$713,312,000 and 1969 estimates are in the range of \$750,000,000 to \$775,000,000. While precise comparisons with other years is not possible because of classification changes, it is to be noted that the 1969 estimates are approximately three times that of 1959 and nearly double the 1964 figures.

In an industry dominated by United States or other foreign manufacturers, Rapid Data represents one of the largest independent office equipment distributors offering nationwide sales and service facilities. Because of the thinly populated and geographically dispersed Canadian market, a one-line product manufacturer finds it uneconomical to establish its own distribution network. Rapid Data with its nationwide distribution and service facilities and broad product range is in a position to offer one product manufacturers economical market penetration.

While each product line is sold separately by an individual sales force, all products come under the jurisdiction of a branch manager and are administratively maintained under one branch's overhead. This marketing approach allows each salesman to gain expertise in his own line and thus to concentrate his sales efforts.

History

Originally the Company was engaged in the Province of Quebec in the sale and distribution of "One Rite" accounting systems and "Bradma" addressing machines. In 1962 it purchased the inventory of Farrington-Bradma Limited and obtained from Adrema Ltd., both subsidiaries of the Farrington Manufacturing Company (a U.S. corporation), certain exclusive rights in Canada to sell and distribute office machinery and accessories manufactured by it. These rights, which were initially for a five year period, have continued on the basis of automatic two year renewals.

In 1964 the Company acquired from Roneo Limited (a U.K. company), all of the shares of its wholly owned subsidiary Roneo Company of Canada, Limited which had marketed the "Roneo" range of filing and

duplicating equipment in Canada for many years. At the time of the acquisition the name was changed to R.D.M. Limited and an exclusive franchise was granted to market Roneo products in Canada until June 30, 1974.

In 1964 the Company was granted an exclusive franchise to market in Canada a line of chemical transfer addressing equipment manufactured by Scriptomatic Inc., a U.S. corporation.

In late 1968 the Company was granted an exclusive franchise to market in Canada until June 30, 1974 Neopost postage meters and related equipment by Roneo-Neopost Limited, a subsidiary of Roneo Limited.

In March of this year the Company was granted an exclusive franchise to market in Canada until December 31, 1972 the products of Randomatic Data Systems, Inc., a U.S. corporation. Subsequently in October, the Company acquired the exclusive worldwide franchise (excepting the United States) to market until December 31, 1975 the products of Randomatic Data Systems, Inc. An exclusive sub-franchise agreement with Roneo Limited is presently being negotiated for the distribution of Randomatic equipment in the United Kingdom, together with the right of first refusal to distribute in certain other countries to be designated. Also an exclusive sub-franchise agreement with Nissho-Iwai Co. Ltd. of Japan is presently being negotiated for the distribution of Randomatic equipment in Japan.

In September of this year the Company acquired from Fabbrica Italiana Machina Aziendali the franchise, extending until December 31, 1971, to market in the United States and Canada its line of addressing and embossing machines.

On March 31, 1969 the Company purchased from Simcoe & Erie General Insurance Company (hereinafter called "Simcoe & Erie") all the undertaking, property and assets except cash, securities and accounts receivable of the Integrated Computer Services Division of Simcoe & Erie, including certain computer programs. A subsidiary company, Rapid Data Computer Services (Hamilton) Limited, was formed to take title to the purchased assets which assets were assigned by the Company to the subsidiary as at March 31, 1969.

Financially, the progress of Rapid Data has been difficult. The Company through its early years was under-capitalized and chronically short of working capital. During this period of time it was dependent on short term acceptance company money and at times 8% of Rapid Data's sales dollar was absorbed in finance charges. This coincided with difficulties in the acceptance industry.

While its basic concept of distribution and service was valid, the high interest charges were a major factor in unprofitable operations until the end of the Company's fiscal year ending June 30, 1968. In March 1968, the Company refinanced its expensive short term debt. Subsequent financing, both debt and equity, have further improved the financial position of the Company.

Operations and Products

Rapid Data, through exclusive franchise arrangements with manufacturers, operates as an independent national sales distributor and servicing agent. It has established a broad base of operation and a diversified product line ranging from filing systems to sophisticated data processing. At present, no manufacturing activities are carried out by the Company.

Operations are conducted through a Toronto main branch and seven company-operated branches in major cities in Canada and through about fifty dealers. All branches carry inventory and have a full line service facility. Dealers are responsible for their own inventories and servicing of equipment.

The Company's products and services are classified as follows:

- duplicating equipment
- mailing systems
- data retrieval
- addressing systems
- computer services

A description of each of the Company's products and services follows:

Duplicating Equipment

The stencil equipment market in Canada has maintained a fairly steady demand of 3,500 to 3,750 units per year and there are some 50,000 machines of all manufacturers in use in Canada. This substantial

market has been largely dominated by one manufacturer. The consumption of stencils and inks provides a good constant repeat business in this market area.

Rapid Data handles the "Roneo" lines for duplicating and stencil cutting. One unit offers four-colour printing capability by means of a simple quick change in cylinders. This is an advantage over competitive duplicators which have one roller that has to be wiped clean after each ink application.

The Roneotronic electronic stencil cutter cuts stencils from a wide range of media, from typewritten pages to full colour photographs. It is the only stencil cutting machine in existence that can do colour separation.

Mailing Systems

There are in Canada a total of approximately 56,000 postage meter machines in use at the present time. There is a market potential of 5,000 machines annually for new users and a replacement market of about 15,000 units for replacement or upgrading.

Until early this year, one manufacturer held over 95% of the national market for postage meters in Canada. However, in February 1969 Rapid Data introduced to the Canadian market Roneo's Neopost meters and the response has been excellent. The meters must continuously meet the approval of the Canada Post Office and their approval was secured before their introduction into the Canadian market. One of their regulations stipulates that the meters must be leased rather than sold.

The Neopost range of postage meter machines has been marketed in the United Kingdom for many years and presently represents over 50% of that market.

In addition to postage meter machines, the Company presently offers a complete line of mail room equipment such as automatic letter openers, scales and folding machines.

Data Retrieval

The Company handles the line of "Roneo" and other filing systems which are competitive with the many filing systems on the market. The line includes steel filing cabinets, lateral filing cabinets, blueprint files and visible record containers. Equipment sales result in a constant repeat business in supplies.

Newest and most promising product offered by the Company in data retrieval is a U.S. developed machine, the Randomatic. By means of a pushbutton keyboard, the machine group selects or specifically selects pre-punched cards from a random file. The Randomatic can accommodate standard tab cards or other cards up to 8" x 5", depending on the model. Virtually no training is required by the operator.

Addressing Systems

In the addressing equipment field, Rapid Data has two compatible lines. The Scriptomatic is sold mainly for direct mailing applications which need high speed and low operating cost on volume work loads. This addressing machine prints off a tab card on which name and address can be typed on a standard electric typewriter. Mail is addressed at a rate of up to 7,500 pieces per hour.

Adrema Ltd., a U.K. subsidiary of Farrington Manufacturing Company, provides a second line of addressing machines under the trade mark "Bradma". The Bradma equipment imprints and embosses metal plates and plastic cards.

In addition, the Company sells a range of addressing machines and manual keyboard or punch tape automatically operated embossing machines manufactured by Fabbrica Italiana Machina Aziendali.

This product range offers a substantial potential in continuing repeat sales of new plates, plastic cards, inks and filing containers.

Computer Services

Rapid Data has recently commenced providing computerised data processing services through Rapid Data Computer Services (Hamilton) Ltd., a wholly owned subsidiary whose operations are based in Hamilton, Ontario. The assets acquired by this subsidiary in March of this year included a lease for a Honeywell 120 computer and certain computer programs. A five year service contract with Simcoe & Erie and similar service contracts with certain insurance companies associated with Simcoe & Erie were entered into on March 31, 1969. Under Rapid Data's management additional accounts have been acquired. Computer utilization has been increased to two shifts and operations are expected to be running on a three shift basis by the end of this year.

PROPERTY

The Company leases its office and branch office premises in Quebec City, Montreal, Ottawa, Toronto, Hamilton, Winnipeg, Vancouver and Calgary. The following table sets out the particulars of the leases:

<u>Date of Lease</u>	<u>Address of Property</u>	<u>Expiry Date</u>	<u>Area Leased</u>	<u>Annual Basic Rent</u>
May 1, 1967	330 St. Roch Street, Quebec City, Quebec.	April 30, 1972	3,500 sq. ft.	\$ 4,800
January 1, 1968	750 Lucerne Road, Town of Mount Royal, Quebec.	December 31, 1970	4,000 sq. ft.	\$ 8,400
Monthly	450 Rochester Street, Ottawa, Ontario.	—	5,000 sq. ft.	\$ 7,200 (1)
April 1, 1960	259 Lakeshore Boulevard East, Toronto, Ontario.	March 31, 1970	14,000 sq. ft.	\$30,012
November 1, 1967	367 Main St. West, Hamilton, Ontario.	October 31, 1969	1,000 sq. ft.	\$ 1,500 (2)
May 1, 1966	513 Bradford Street, Winnipeg, Manitoba.	April 30, 1971	1,000 sq. ft.	\$ 2,133
October 1, 1968	1937 10th Avenue South-West, Calgary, Alberta.	September 30, 1970	685 sq. ft.	\$ 1,291
August 1, 1969	46 East Sixth Avenue, Vancouver, B.C.	July 31, 1979	5,000 sq. ft.	\$ 7,250
April 1, 1969	795 King Street East, Hamilton, Ontario.	March 31, 1974	1,500 sq. ft.	\$ 3,780 (3)

(1) The Company is negotiating an agreement to lease premises in a building yet to be constructed for a term of 10 years from occupancy at a yearly basic rental of \$8,640, the area to be leased being approximately 5,000 square feet.

(2) The Company is negotiating a new lease.

(3) The Lessee is Rapid Data Computer Services (Hamilton) Ltd.; the obligations of the Lessee under this lease have been guaranteed by the Company.

SHARE AND LOAN CAPITAL

Particulars of the share and loan capital of the Company and of the loan capital of its subsidiaries are as follows:

	<u>Authorized</u>	<u>Outstanding June 30, 1969</u>	<u>Outstanding September 30, 1969</u>	<u>Outstanding September 30, 1969 after giving effect to this financing</u>
Bank advances (secured) (1)	—	\$ 309,654	\$ 345,716	—
8% Notes, Series A, due December 31, 1973 (2)	\$ 900,000	\$ 688,000	\$ 677,000	\$ 677,000
7% Subordinated Notes due September 6, 1974 (3)	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
Capital Stock				
6% cumulative redeemable convertible preferred shares with a par value of \$7.25 each . . (4)	200,000 shs.	—	—	200,000 shs. (5)
common shares without nominal or par value (4)	5,000,000 shs.	1,184,000 shs.	1,234,200 shs. (6)	1,234,200 shs.
		\$1,450,434	\$1,751,634	\$1,751,634

NOTES:

- (1) Accounts receivable have been pledged as security for bank advances.
- (2) Reference is made to "8% Notes, Series A" on page 7.
- (3) Reference is made to "7% Subordinated Notes" on page 9; these notes are convertible.
- (4) After giving effect to the issue of Supplementary Letters Patent yet to be obtained to increase the authorized capital by:
 - (i) the creation of an additional 3,000,000 common shares without nominal or par value, and
 - (ii) the creation of 200,000 6% cumulative redeemable convertible preferred shares with a par value of \$7.25 each.
- (5) After giving effect to the sale to Midland-Osler Securities Limited of 200,000 6% cumulative redeemable convertible preferred shares with a par value of \$7.25 each, being the shares offered by this prospectus.
- (6) After giving effect to the sale for cash on August 27, 1969 of 50,200 common shares without nominal or par value.

- (7) Reference is made to the description of options which have been granted to certain employees and a director and senior officer of the Company to purchase in the aggregate 19,000 common shares without nominal or par value as outlined under the heading "Options to Purchase Securities" on page 11.
- (8) Reference is made to the obligations of the Company arising with respect to leases on real property as outlined under the heading "Property" on page 4.

SPECULATIVE NATURE OF SECURITIES

As the fiscal year ended June 30, 1969 was the first fiscal period since incorporation in 1962 wherein the Company achieved a net profit and had available funds properly applicable to the payment of dividends, the securities offered by this prospectus are considered speculative.

6% CUMULATIVE REDEEMABLE CONVERTIBLE PREFERRED SHARES

A full description of the preferences, rights, restrictions, conditions and limitations attaching to the 6% cumulative redeemable convertible preferred shares with a par value of \$7.25 each (hereinafter called the "Preferred Shares") offered by this prospectus appears in the Schedule commencing on page 25.

A summary is as follows —

(1) The holders of the Preferred Shares shall be entitled to receive as and when declared by the board of directors out of the moneys of the Company properly applicable to the payment of dividends fixed, preferential, cumulative, cash dividends at the rate of 6% per annum on the amounts from time to time paid up thereon, in half-yearly instalments in lawful money of Canada on March 31 and September 30 in each year.

(2) In the event of the liquidation of the Company, the holders of the Preferred Shares then outstanding shall be entitled to receive, in lawful money of Canada, the amount paid up on such Preferred Shares, together with an amount equal to all dividends, if any, accrued thereon up to the date of distribution and then remaining unpaid.

(3) The Company may purchase for cancellation the whole or any part of the Preferred Shares at the lowest price at which such shares are obtainable, but such may not in any case exceed the then current redemption price plus brokerage costs.

(4) The Company may at its option on 30 days' notice in writing redeem the whole or any part of the Preferred Shares on payment for each share to be redeemed of the amount paid up on such share, an amount equal to all dividends, if any, accrued thereon up to the date fixed for redemption and then remaining unpaid, whether or not earned or declared, and an amount which, if the date fixed for redemption is prior to December 1, 1970 shall be \$.45 per share, if the date fixed for redemption is after November 30, 1970 and prior to December 1, 1971 shall be \$.35 per share, if the date fixed for redemption is after November 30, 1971 and prior to December 1, 1972 shall be \$.30 per share, if the date fixed for redemption is after November 30, 1972 and prior to December 1, 1973 shall be \$.20 per share, if the date fixed for redemption is after November 30, 1973 and prior to December 1, 1974 shall be \$.15 per share and if the date fixed for redemption is after November 30, 1974 and prior to December 1, 1975 shall be \$.05 per share and if the date fixed for redemption is after November 30, 1974 there will be no premium payable on redemption.

(5) The Company shall on or before March 1, 1977 and on or before March 1 in each year thereafter, set apart annually as a sinking fund a sum equal to the lesser of (i) \$250,000 or (ii) 10% of its consolidated net income for the preceding fiscal year after deducting certain specified dividends and the Company shall use and apply the moneys from time to time in the sinking fund either in the purchase or in the redemption of Preferred Shares.

(6) The holders of Preferred Shares shall have the right at their option at any time up to but not after the close of business on December 1, 1976, to convert Preferred Shares into common shares without nominal or par value (hereinafter called the "Common Shares") in the capital of the Company on the basis of one Common Share for each Preferred Share subject to appropriate adjustments only in the case of subdivisions, consolidations and reclassifications of the Common Shares, stock dividends, distributions of properties and assets of the Company by way of reduction of capital and the reorganization of the Company. In the case of any Preferred Shares called for redemption, the right of conversion thereof shall terminate at the close of business on the third business day prior to the date fixed for redemption.

(7) The holders of the Preferred Shares shall not be entitled as such to receive notice of or to attend any meeting of the shareholders of the Company or to vote at any such meeting unless dividends on the Preferred Shares become in arrears to the extent of four half-yearly dividends.

Thereafter but only so long as any dividends on the Preferred Shares remain in arrears the holders of the Preferred Shares shall be entitled to notice of and to attend all meetings of shareholders of the Company and shall have one vote thereat for each Preferred Share held by each such holder respectively.

(8) If and each time the Company issues to the holders of its Common Shares rights to subscribe for shares of the Company or securities convertible into or exchangeable for shares of the Company or securities carrying options or rights to subscribe for shares of the Company, the Company shall at the same time issue to the holders of Preferred Shares then outstanding rights to subscribe for shares or securities of the Company on the same basis as would have been the case had the holders of the Preferred Shares immediately prior to the issue of such rights converted all of the outstanding Preferred Shares into Common Shares on the basis of the Conversion Rate then in effect.

(9) The provisions attaching to the Preferred Shares may not be deleted or varied without, but may be deleted or varied with, the prior approval of the holders of the Preferred Shares as a class. Such approval may be given by compromise or arrangement under the Canada Corporations Act, or by written instrument signed by not less than two-thirds ($\frac{2}{3}$) of the holders of the Preferred Shares then outstanding, or by a resolution carried by an affirmative vote of the holders of not less than two-thirds ($\frac{2}{3}$) of the Preferred Shares represented and voted at a meeting of such holders called for the purpose.

PREFERRED SHARE DIVIDEND COVERAGE

Annual dividends on the Preferred Shares to be outstanding on completion of this financing will amount to \$87,000. Consolidated net profit in the year ended June 30, 1969 including profit on purchase of Series A Notes of \$49,111 and reduction of income taxes of \$68,000 on application of prior years' losses, amounted to \$189,423 or approximately 2.2 times such dividends.

PREFERRED SHARE ASSET COVERAGE

The consolidated net tangible assets of the Company and its subsidiaries as at June 30, 1969 as shown by the Pro Forma Consolidated Balance Sheet were as follows:

Current Assets	\$2,790,032	
Deferred Receivable	72,473	
Fixed Assets	169,030	
Less:		\$3,031,535
Current liabilities	\$ 575,012	
Deferred revenue	18,409	
Long term debt	889,730	1,483,151
Consolidated net tangible assets after giving effect to present financing ..	\$1,548,384	
Par value of the 200,000 Preferred Shares to be outstanding on completion of present financing	\$1,450,000	

On the above basis, net tangible assets amount to 1.07 times the par value of the Preferred Shares to be outstanding on completion of the present financing.

COMMON SHARES

The Common Shares of the Company are subject in all respects to the rights of the holders of the Preferred Shares. The Common Shares carry the right to one vote per share at meetings of shareholders of the Company.

DIVIDEND RECORD

The Company has declared the following dividends per share during the last five years ending June 30;

	1965	1966	1967	1968	1969
Class A Preferred Shares	75¢	Nil	Nil	(1)	(1)
Class B Preferred Shares	60¢	Nil	Nil	(1)	(1)
Class C Preferred Shares	\$1.20	Nil	Nil	(1)	(1)
Common Shares, old	1¢	Nil	Nil	(1)	(1)
new	(1)	(1)	(1)	Nil	Nil

(1) By supplementary letters patent bearing date November 20, 1967, the then existing common shares without nominal or par value were consolidated on a ten for one basis for Common Shares, all the then outstanding Class "A", Class "B" and Class "C" Preferred Shares were converted into Common Shares, and the authorized Class "A", Class "B" and Class "C" Preferred Shares were cancelled.

As there was no net profit in 1965, the declaration and payment of dividends in that year constituted an unauthorized return of capital.

Reference is made to the restrictions on the payment of dividends on any shares in the capital of the Company which are described under the heading "Funded Debt", sub-heading "8% Notes, Series A" on pages 7 and 8.

PRIOR SALES

During the past 12 months no Common Shares of the Company have been issued except as follows:

<u>Date</u>	<u>Number of Shares</u>	<u>Price per Share</u>	<u>Cash Consideration</u>
November 8, 1968	24,000	\$ 4.10	\$ 98,400
November 14, 1968	100,000	5.10	510,000
August 27, 1969	50,200	6.00	301,200

In addition to the above, on March 31, 1969, the Company issued 10,000 Common Shares to Simcoe & Erie to acquire the undertaking and certain assets of its Integrated Computer Services Division valued at \$100,000.

Reference is made to items 7, 8 and 11 on page 12 under the heading "Material Transactions and Interest of Management Therein".

USE OF PROCEEDS

The estimated net proceeds to the Company from the sale of the 200,000 Preferred Shares offered by this prospectus will amount to approximately \$1,313,500 (after deducting issue expenses estimated at \$35,000) and will be used (i) to the extent of \$350,000 to retire bank loans which were utilized to a large extent in the financing of the postage meter operation which commenced early this year, (ii) to the extent of \$800,000 to finance the Company's working capital requirement with respect to the postage meter operation during the next eighteen months, and (iii) to the extent of \$163,500 to supplement the general working capital needs of the Company.

UNDERWRITING AGREEMENT

Pursuant to an underwriting agreement dated October 24, 1969 between the Company and Midland-Osler Securities Limited (the "Underwriter"), the Underwriter has agreed to subscribe for and buy and the Company has agreed to issue and sell the 200,000 Preferred Shares offered by this prospectus for an aggregate consideration of \$1,450,000 payable in cash against delivery of certificates for such shares and other documents on or before December 31, 1969. The said agreement amongst other things, provides that (i) the Company will pay the Underwriter a commission of \$101,500, (ii) the Company will pay the expenses of the issue and (iii) the Underwriter may refuse to complete the purchase and sale under certain specific circumstances but in no case will the Underwriter have the right to purchase part only of the 200,000 Preferred Shares offered by this prospectus.

FUNDED DEBT

8% Notes, Series A

8% Notes, Series A (herein called the "Series A Notes") of a principal amount of \$900,000, issued under a Trust Deed dated as of November 15, 1967, as amended, between the Company and Guaranty Trust Company of Canada, as Trustee, were sold to the public in Ontario under a prospectus dated March 8, 1968. As at September 30, 1969 there were outstanding \$677,000 in principal amount Series A Notes.

Principal, half-yearly interest and redemption premiums (if any) on the Series A Notes are payable in lawful money of Canada at any branch in Canada (far northern branches excepted) of the Company's bankers. Interest at the rate of 8% per annum is payable semi-annually on June 30 and December 31 in each year. The Series A Notes are redeemable at the principal amount thereof for sinking fund purposes and at a premium (not presently exceeding 6½%) for other purposes.

The Trust Deed provides for the retirement by purchase for cancellation or the redemption pro rata by call to the nearest \$100 principal amount, for the purpose of a sinking fund of the following amounts:

by December 31, 1968	\$ 50,000*
by December 31, 1969	100,000*
by December 31, 1970	100,000*
by December 31, 1971	150,000
by December 31, 1972	200,000
by December 31, 1973 (maturity date)	300,000
	\$ 900,000

* The 1968 and 1969 requirements have been met in full and as of September 30, 1969, \$73,000 of the 1970 requirement has been met.

Any Series A Notes purchased or redeemed (other than out of sinking fund moneys) by the Company may at the Company's election be applied as a credit against subsequent sinking fund payments.

The Series A Notes are secured by a first fixed charge on the shares of R.D.M. Limited and a first floating charge on all other assets and undertaking of the Company (including trade accounts receivable and inventories) now owned or hereafter acquired. The Trust Deed provides the said floating charge shall in no way hinder or prevent the Company or any of its subsidiaries at any time and from time to time (until the security constituted by the Trust Deed shall have become enforceable and the Trustee shall become determined or bound to enforce the same) from selling, alienating, leasing, assigning or otherwise disposing of or dealing with the subject matter of the said floating charge in the ordinary course of business and for the purpose of carrying on same or from entering into other specified types of transactions, provided that any such action is not in breach of any express provision contained in the Trust Deed.

R.D.M. Limited executed and delivered a demand note under a Trust Indenture dated as of November 15, 1967 between R.D.M. Limited and Guaranty Trust Company of Canada, as Trustee, to secure a guarantee by R.D.M. Limited of the due repayment of the principal, half-yearly interest and redemption premiums (if any) of all Series A Notes issued under the Trust Deed.

The Trust Deed provides that so long as the Series A Notes remain outstanding the Company shall not issue additional notes under the Trust Deed or other funded obligations unless:

- (i) Consolidated Net Tangible Assets, as defined in the Trust Deed, (after giving effect to the issue and sale of such additional notes or other funded obligations) are equal to at least 3 times all funded obligations of the Company to be outstanding after such issue,
- (ii) the annual Consolidated Net Earnings, as defined in the Trust Deed, for the two preceding fiscal years is at least equal to 5 times the aggregate of annual interest payable on all funded obligations of the Company to be outstanding after such issue, and
- (iii) the average annual Consolidated Net Cash Flow, as defined in the Trust Deed, for the two preceding fiscal years is at least equal to 2.5 times the aggregate of annual interest payable and sinking fund requirements on all funded obligations of the Company to be outstanding after such issue.

However, the Trust Deed permits the issuance of the Subordinated Notes more fully described under the heading "7% Subordinated Notes."

The Trust Deed also provides that the Company shall not

- (i) reduce or otherwise pay off any of its share capital except out of the proceeds from a contemporaneous issue of shares, or declare dividends on any shares of its capital or make any tax payments under Section 105 of the Income Tax Act except out of the aggregate of
 - (a) 75% of the Consolidated Net Profit, as defined in the Trust Deed after December 31, 1967 on a cumulative basis, and

(b) \$50,000

provided that such payments will not reduce Consolidated Working Capital or Shareholder's Equity, both as defined in the Trust Deed, below \$500,000 and \$100,000 respectively.

- (ii) make any capital expenditure if such expenditure would reduce Consolidated Working Capital below \$250,000.

7% Subordinated Notes

Pursuant to an agreement made as of September 4, 1968 between the Company and Midland-Osler Securities Limited, the Company issued \$200,000 principal amount of 7% subordinated convertible notes (herein called the "Subordinated Notes") dated September 6, 1968 of which amount \$200,000 were outstanding as at September 30, 1969. These notes mature and become payable on September 6, 1974; there is no sinking fund provision for repayment or cancellation.

The indebtedness evidenced by the Subordinated Notes, including interest thereon, is subordinate to (i) all indebtedness of the Company, other than the Subordinated Notes, outstanding on September 6, 1968, (ii) the Series A Notes, (iii) any indebtedness of the Company to any bank or banks under the Bank Act (Canada) provided that such indebtedness is permitted under the Trust Deed dated as of November 15, 1967, and (iv) any renewals, extensions and refundings of any such indebtedness.

The Subordinated Notes are convertible at any time prior to 5 p.m., Toronto time, on September 6, 1974 into fully paid and non-assessable Common Shares by applying the principal amounts of such Notes to the purchase price of such shares at a conversion price of \$3.25. The conversion price is subject to certain defined adjustments in the case of (i) issuance of Common Shares at a price less than such conversion price (ii) any distribution upon the Common Shares payable otherwise than out of retained earnings, (iii) subdivision into a greater or consolidation into a lesser number of Common Shares, (iv) any capital reorganization or any reclassification of the capital stock of the Company, or (v) any consolidation or merger of the Company with or into any other company.

DIRECTORS AND OFFICERS

<u>Name and Address</u>	<u>Position</u>	<u>Principal Occupation for Past Five Years</u>
ERIC ALAN (CLIVE) RAYMOND 265 Russell Hill Road Toronto, Ontario	President and Director	Chief Executive Officer of the Company.
WILLIAM JOSEPH SMITH 10 Dunmurray Blvd. Agincourt, Ontario	Vice-President Administration, Secretary- Treasurer and Director	Chief Financial Officer of the Company; prior to October 1966 Operations Manager of Aetna Factors Corporation Ltd.
HECTOR THEODORE MARSHALL 14 Browside Avenue Toronto, Ontario	Vice-President Marketing and Director	Vice-President, Marketing; prior to May, 1969, Local Director of Marketing, Roneo Limited of England; prior to March 1968, National Sales Manager, Roneo Limited of England.
DAVID GOODMAN 2440 Major Street St. Laurent, Quebec	Director	Secretary-Treasurer of Rapid Press Limited.
BRYAN MACINTOSH BENITZ 355 St. Clair Ave. West Apt. 1605, Toronto, Ontario	Director	Investment Dealer, Director of Wisener and Partners Company Limited.

<u>Name and Address</u>	<u>Position</u>	<u>Principal Occupation for Past Five Years</u>
RICHARD CHARLES WILFRED MAURAN 95 Ardworld Gate Toronto, Ontario	Director	Chairman, Harvey's Foods Limited, Grissol Foods Limited; President, Industrial Growth Management Limited; prior to July 1967, President, Swiss Chalet Bar-B-Q Limited.
JOHN WARREN NEVIL THOMAS 93 Bidewell Avenue Downsview, Ontario	Director	Investment Dealer, Director in charge of Research Department, Midland-Osler Securities Limited. December 1968 to July 1969, Manager Research Department, Midland-Osler Securities Limited. Security Analyst, Midland-Osler Securities Limited (September 1967 to December 1968), Pitfield, MacKay, Ross & Company Limited (November 1964 to August 1967), Dominion Securities Corp. Limited (prior to November 1964).

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The by-laws of the Company provide, in effect, that the Board is authorized to fix from time to time by resolution, the remuneration of the directors.

The amount of the aggregate direct remuneration paid or payable by the Company and its subsidiaries to the senior officers of the Company for the year ended June 30, 1969 was \$91,687 and for the ensuing period until September 30, 1969 was \$24,040. No remuneration was paid to directors as such during either of the said periods. No pension or retirement benefits are payable to directors or officers except under the Canada Pension Plan.

Pursuant to two agreements dated as of October 6, 1967 and one agreement dated May 1, 1969 between the Company and its President and its two Vice-Presidents, the President of the Company and its two Vice-Presidents are to receive a combined total annual remuneration of \$55,000 plus 10% of the net profits of the Company before income taxes payable by the Company.

PRINCIPAL SHAREHOLDERS

The following are the names of all holders of shares of the Company owning of record or known by the Company to own beneficially, directly or indirectly, more than 10% of the issued common shares without par value as at September 30, 1969:

<u>Name and Address</u>	<u>Designation of Class</u>	<u>Type of Ownership</u>	<u>Number of Shares</u>	<u>Percentage of Class</u>
ERIC ALAN (CLIVE) RAYMOND 265 Russell Hill Road Toronto, Ontario	Common	Beneficial	191,991	15.6%
BRYAN MACINTOSH BENITZ 355 St. Clair Ave. West Apt. 1605, Toronto, Ontario	Common	Beneficial	140,540	11.9%

The senior officers and directors as a group beneficially owned, directly or indirectly, common shares without par value at September 30, 1969 as follows:

<u>Designation of Class</u>	<u>Number of Shares Owned</u>	<u>Percentage of Class</u>
Common	380,282	30.8%

OPTIONS TO PURCHASE SECURITIES

As at September 30, 1969 there was outstanding in favour of a director and senior officer of the Company an option to purchase as fully paid and non-assessable on or before December 31, 1973 at the price of six dollars and fifty cents (\$6.50) per share ten thousand (10,000) Common Shares of the Company, exercisable prior to the termination thereof as to twenty per cent (20%) thereof on or before December 31 in each year and cumulative from year to year as to any part thereof not so exercised.

As at September 30, 1969 there was outstanding in favour of employees of the Company as a group options to purchase as fully paid and non-assessable on or before December 31, 1973 at the price of six dollars and fifty cents (\$6.50) per share an aggregate of nine thousand (9,000) Common Shares of the Company, exercisable prior to the termination thereof as to twenty per cent (20%) thereof on or before December 31 in each year and cumulative from year to year as to any part thereof not so exercised.

The purchase price of such optioned shares was determined on the basis of the mean thirty (30) day average price immediately preceding the date of the granting of such options as determined by a registered dealer less fifteen per cent (15%).

Reference is made to the conversion privilege attached to the subordinated notes described on page 9 under the heading "Funded Debt" sub-heading "7% Subordinated Notes".

MATERIAL TRANSACTIONS AND INTEREST OF MANAGEMENT THEREIN

Particulars of every material transaction entered into by either the Company or any of its subsidiaries within the three years prior to October 24, 1969 are as follows:

1. Reference is made to the Trust Deed dated as of November 15, 1967, as amended, between the Company and Guaranty Trust Company of Canada, as Trustee, more particularly described under the heading "Funded Debt", sub-heading "8% Notes, Series A" on page 7.
2. Reference is made to the Trust Indenture and the Guarantee Agreement each dated as of November 15, 1967 between R.D.M. Limited and Guaranty Trust Company of Canada more particularly described under the heading "Funded Debt", sub-heading "8% Notes, Series A" on page 7.
3. By supplementary letters patent bearing date November 20, 1967 the then existing common shares without nominal or par value were consolidated on a ten for one basis for Common Shares, all the then outstanding Class "A", Class "B" and Class "C" Preferred Shares were converted into Common Shares and the authorized Class "A", Class "B" and Class "C" Preferred Shares were cancelled.
4. Pursuant to an Underwriting Agreement dated as of October 6, 1967, as amended, between the Company, Midland-Osler Securities Limited, Eric Alan (Clive) Raymond and Bryan Macintosh Benitz, the Company sold \$900,000 in principal amount of Series A Notes and 450,000 Common Shares at a price of 1¢ per share to Midland-Osler Securities Limited, as underwriter, who sold same in units of \$1,000 principal amount of Series A Notes issued at a discount of \$5 per \$1,000 principal amount of Series A Notes and 500 Common Shares issued at the price of 1¢ per share. The per \$1,000 unit commission derived by Midland-Osler Securities Limited was \$66.66⅔.

This Underwriting Agreement appoints Midland-Osler Securities Limited the fiscal agent of the Company until December 31, 1973 and gives Midland-Osler Securities Limited the right to have two nominees on the Company's board of directors, such nominees at the date hereof being Richard Charles Wilfred Mauran and John Warren Nevil Thomas.

5. On March 15, 1968 the Company allotted and issued a total of 489,440 Common Shares at the price of 1¢ per share to certain persons who had delivered waivers to the Company of \$468,040

of the indebtedness of the Company to them including the following directors or senior officers of the Company and their associates or affiliates;

<u>Name and Address</u>	<u>Amount of Indebtedness Waived</u>	<u>Number of Common Shares Allotted</u>
BRYAN MACINTOSH BENITZ (director) 355 St. Clair Ave. West Apt. 1605, Toronto, Ontario	\$163,320.50	125,773
DAVID GOODMAN (director) 2440 Major Street St. Laurent, Quebec	532.50	213
ERIC ALAN (CLIVE) RAYMOND (President and director) 265 Russell Hill Road Toronto, Ontario	114,701.00	226,046
EDOUARD ROBITAILLE (senior officer) 2371 St. Edouard Giffard, Quebec 5, Quebec	5,000.00	2,000
WILLIAM JOSEPH SMITH (Vice-President — Administration Secretary-Treasurer and director) 10 Dunmurray Blvd. Agincourt, Ontario	15,190.00	30,380

6. Reference is made to an agreement as of September 4, 1968 between the Company and Midland-Osler Securities Limited whereunder the Company appointed Midland-Osler Securities Limited agent for the selling of \$200,000 principal amount of Subordinated Notes dated September 6, 1968 more particularly described under the heading "Funded Debt", sub-heading "7% Subordinated Notes" on page 9. The expenses of the transaction in the aggregate were in the amount of \$5,880 which included a selling commission in the amount of \$2,500 payable to Midland-Osler Securities Limited.

John Warren Nevil Thomas, a director of the Company, was then also a senior employee of Midland-Osler Securities Limited; and Richard Charles Wilfred Mauran, a director of the Company, was then also a director of Industrial Growth Management Limited which purchased \$100,000 principal amount of the Subordinated Notes.

7. On November 8, 1968 the Company sold to Tri-Maple Limited 24,000 Common Shares at an aggregate price of \$98,400. Bryan Macintosh Benitz, a director of the Company, was a director of and the controlling shareholder of Tri-Maple Limited.

8. On November 14, 1968 the Company sold 100,000 Common Shares to certain institutional investors for an aggregate consideration of \$510,000.

9. On February 19, 1969 the Company granted certain employee options at the price of \$6.50 per share more particularly described under the heading "Options to Purchase Securities". Reference is made to the interest of a director and senior officer as described under the aforesaid heading.

10. Reference is made to the purchase by the Company from Simcoe & Erie of the undertaking and certain assets of its Integrated Computer Services Division described under the heading "Business", sub-heading "History" on page 1.

11. On August 27, 1969 the Company sold 50,200 Common Shares for a consideration of \$301,200. Of these 50,200 Common Shares, 4,200 were sold to Eric Alan (Clive) Raymond, the President and a director of the Company.

12. Reference is made to the proposed acquisition of all the issued and outstanding shares in the capital of Cellulose Products Corporation more particularly described under the heading "Cellulose Products Corporation" on page 13.

13. Reference is made to the Underwriting Agreement more particularly described under the heading "Underwriting Agreement". John Warren Nevil Thomas, a director of the Company, is also a director of Midland-Osler Securities Limited.

14. Reference is made to the acquisition of certain franchises more fully described under the heading "Business", sub-heading "History" on page 1.

15. Reference is made to the three employment agreements more fully described under the heading "Remuneration of Directors and Senior Officers" on page 10.

While the Preferred Shares offered by this prospectus are in primary distribution and for a period of thirty days thereafter, copies of the above contracts, agreements and franchises may be inspected at the head office of the Company during normal business hours.

CELLULOSE PRODUCTS CORPORATION

By letter of intent dated September 18, 1969 written by the Company to Cellulose Products Corporation (hereinafter called "Cellulose") the Company proposed to enter into a share purchase agreement with all of the shareholders of Cellulose whereunder the Company would purchase all of the issued shares of Cellulose in consideration of the issue to the vendors of the sum of (a) 70,000 Common Shares of the Company and (b) a number of Common Shares of the Company determined by multiplying 560 by an amount determined by dividing by 1,000 the amount that the audited pre-tax profits of Cellulose for the calendar year ended December 31, 1969 is in excess of \$100,000 (Canadian). The letter of intent provides that the Company will make available to Cellulose after closing up to \$100,000 (U.S.) in loans.

The President of Cellulose who owns 80% of the issued shares of Cellulose agreed that the letter of intent is his understanding of the discussions, but no agreements as yet have been settled or entered into with any of the shareholders of Cellulose, and it is not known if all of the shareholders of Cellulose will enter into appropriate agreements. While the letter of intent contemplates that the sale was to have been completed on or before October 10, 1969 an audit and investigation into the affairs of Cellulose is still underway with the co-operation of Cellulose so that it is reasonable to expect that the transaction may be completed under the terms of the letter of intent.

Cellulose is engaged in the business of manufacturing plastic cards, including credit, identification and other similar cards, and selling plastic cards, embossing services and imprinting equipment. The business of Cellulose can be readily integrated with certain businesses carried on by the Company with the expected result that the business of both Cellulose and the Company will be increased by the acquisition.

As at December 31, 1968, the date of the last audited balance sheet of Cellulose, the assets of Cellulose after depreciation were stated (in U.S. dollars) to be \$334,663, current liabilities \$169,362, long term debt \$145,845 and shareholders' equity \$19,456. Based on unaudited financial statements the net earnings of Cellulose before tax for the eight month period ending August 31, 1969 are \$39,247 in U.S. dollars. The audited financial statements as at December 31, 1968 and the unaudited financial statements for the eight month period ending August 31, 1969 are presented in this prospectus at pages 21 and 22.

Any share purchase agreement which may result from current negotiations with the shareholders of Cellulose will be subject to the approval of both the Common and Preferred Shareholders of the Company, each voting separately as a class.

PENDING LEGAL PROCEEDINGS

The Company is engaged in the normal course of its business in the prosecution of actions for the collection of accounts receivable involving not more than an estimated total of \$2,500.

An action was commenced on April 5, 1968 in the Supreme Court of Ontario by Ormig Organisations — Mittel G.M.B.H. against the Company for the sum of \$7,259.46 being the amount alleged to be owing for certain goods sold and delivered to the Company, an allegation which the Company denies.

TRANSFER AGENTS AND REGISTRARS

The Guaranty Trust Company of Canada at its offices at 366 Bay Street, Toronto, Ontario and 427 St. James Street West, Montreal, Quebec is the transfer agent and registrar for the Company's Common Shares and will be the transfer agent and registrar for the Preferred Shares.

AUDITORS

The auditors for the company are McDonald, Currie & Co., Chartered Accountants, 120 Adelaide Street West, Toronto, Ontario.

RAPID DATA SYSTEMS

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CONSOLIDATED BALANCE SHEET AND PRO FORMA BALANCE SHEET AS AT

ASSETS

			Balance sheet \$	Pro forma balance sheet (note 15) \$
Current Assets				
Cash			7,937	1,011,783
Accounts receivable (note 2)			797,199	797,199
Inventory — at the lower of cost or net realizable value			981,050	981,050
			<u>1,786,186</u>	<u>2,790,032</u>
Deferred Receivable — Postage meter contracts (note 3)			<u>72,473</u>	<u>72,473</u>
Fixed Assets				
	Cost \$	Accumulated depreciation \$		
Machinery and office equipment	170,422	95,684	74,738	74,738
Leasehold improvements	7,251	6,649	602	602
Computer software	93,690	—	93,690	93,690
	<u>271,363</u>	<u>102,333</u>	<u>169,030</u>	<u>169,030</u>
Other Assets				
Financing expenses re 7% subordinated notes			5,879	5,879
Incorporation expenses less amortization (note 13)			2,200	2,200
Product development costs less amortization (notes 9 and 13)			204,708	204,708
			<u>212,787</u>	<u>212,787</u>
Excess of Purchase Price of Businesses Acquired Over Net Assets (notes 11 and 13)			154,920	154,920

Signed on Behalf of the Board

(Signed) CLIVE RAYMOND, Director

(Signed) W. J. SMITH, Director

2,395,396 3,399,242

(The accompanying notes are an integral part of these financial statements)

AUDITOR'S REPORT

To the Directors,
Rapid Data Systems & Equipment Ltd.

We have examined the consolidated balance sheet and pro forma consolidated balance sheet of Rapid Data Systems & Equipment Ltd. and subsidiaries as at June 30, 1969 and the consolidated statements of earnings and deficit for the years ended June 30, 1969 and 1968. We were not present to observe physical inventories taken at June 30, 1967 and are therefore unable to express an opinion on such inventories. Except for this, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion:

- (a) the accompanying consolidated balance sheet presents fairly the financial position of the companies as at June 30, 1969;

TORONTO, December 5, 1969

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FORMA CONSOLIDATED BALANCE SHEET

NE 30, 1969

LIABILITIES

	Balance sheet \$	Pro forma balance sheet (note 15) \$
Current Liabilities		
Bank advances (note 2)	309,654	—
Accounts payable and accrued liabilities	567,752	567,752
Current portion of long-term debt	7,260	7,260
	<u>884,666</u>	<u>575,012</u>
Deferred Revenue — Postage meters (note 3)	18,409	18,409
Long-Term Debt		
8% notes, series A (note 5)	688,000	688,000
7% subordinated notes (note 6)	200,000	200,000
Rentals on equipment leases	8,990	8,990
	<u>896,990</u>	<u>896,990</u>
Less: Current portion	7,260	7,260
	<u>889,730</u>	<u>889,730</u>

SHAREHOLDERS' EQUITY

Capital Stock (notes 6, 10 and 15)		
Authorized —		
(200,000 6% cumulative redeemable convertible preferred shares with a par value of \$7.25 each pro forma)		
2,000,000 common shares without nominal or par value (5,000,000 pro forma)		
Issued and fully paid —		
(200,000 preferred shares pro forma)	—	1,450,000
1,184,000 common shares	1,450,434	1,450,434
Contributed Surplus	1,575	1,575
Deficit	(849,418)	(985,918)
	<u>602,591</u>	<u>1,916,091</u>
	<u>2,395,396</u>	<u>3,399,242</u>

part of the consolidated financial statements)

REPORT

- (b) subject to the issuance of Supplementary Letters Patent referred in note 15(a), the accompanying pro forma consolidated balance sheet presents fairly the financial position of the companies as at June 30, 1969 after giving effect to the transactions described in note 15; and
- (c) the accompanying consolidated statements of earnings and deficit present fairly the results of operations of the companies for the year ended June 30, 1969 and, subject to the accuracy of the inventories at June 30, 1967, for the year ended June 30, 1968;

all in accordance with generally accepted accounting principles applied on a consistent basis.

(Signed) McDONALD, CURRIE & CO.
Chartered Accountants

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AND

CONSOLIDATED STATEMENTS FOR THE FIVE YEARS AND SIX MONTHS

	1964 \$
Sales	1,335,417
Cost of Sales and Operating Expenses	1,536,148
	(200,731)
Other (Income) and Expenses	
Interest on long-term debt	7,664
Profit on purchase of Series A notes	—
Depreciation	9,064
Amortization of incorporation and product development expenses	—
Unrecorded liability for purchases at June 30, 1968	—
	16,728
	(217,459)
Provision for Income Taxes (note 8)	—
Profit (Loss) for the Period Before Extraordinary Items	(217,459)
Extraordinary Items	
Reduction of income taxes on application of prior years' losses	—
Profit on sterling devaluation	—
Net Profit (Loss) for the Period (notes 11 and 12)	(217,459)
	(note 13)

CONSOLIDATED STATEMENTS OF EQUITY FOR THE FIVE YEARS AND SIX MONTHS

	1964 \$
Balance — Beginning of Year	41,29
Net profit (loss) for the year	(217,459)
	258,75
Expenses relating to the issue of common shares and Series A notes in March 1968 (note 4)	—
Expenses relating to the issue of common shares in 1969	—
Dividends	13,74
Balance — End of Year	272,50

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MENT OF EARNINGS

MONTHS ENDED JUNE 30, 1969

Years ended December 31,		Six Months ended June 30,		Years ended June 30,	
1965	1966	1967		1968	1969
\$	\$	\$		\$	\$
2,085,614	1,747,507	1,062,903		1,989,573	2,331,648
2,131,807	2,003,026	1,050,418		2,040,548	2,041,587
(46,193)	(255,519)	12,485		(50,975)	290,061
56,078	52,042	22,228		60,675	78,004
—	—	—		(17,029)	(49,111)
16,903	14,251	6,274		13,028	22,395
19,565	19,565	10,987		25,790	30,323
—	—	—		—	19,027
92,546	85,858	39,489		82,464	100,638
(138,739)	(341,377)	(27,004)		(133,439)	189,423
—	—	—		—	68,000
(138,739)	(341,377)	(27,004)		(133,439)	121,423
—	—	—		—	68,000
—	—	—		28,318	—
(138,739)	(341,377)	(27,004)		(105,121)	189,423
					(note 9)

MENT OF DEFICIT

MONTHS ENDED JUNE 30, 1969

Years ended December 31,		Six Months ended June 30,		Years ended June 30,	
1965	1966	1967		1968	1969
\$	\$	\$		\$	\$
272,501	426,946	768,323		795,327	1,016,541
(138,739)	(341,377)	(27,004)		(105,121)	189,423
411,240	768,323	795,327		900,448	827,118
—	—	—		116,093	—
—	—	—		—	22,300
15,706	—	—		—	—
426,946	768,323	795,327		1,016,541	849,418

RAPID DATA SYSTEMS & EQUIPMENT LTD.

AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Consolidation

The accounts of all subsidiaries have been consolidated. Earnings from businesses acquired have been included in the consolidated statement of earnings from dates of acquisition.

2. Security for Bank Loans

Accounts receivable have been pledged as security for bank advances.

3. Postage Meter Contracts

These are accounted for using the present value method, whereby the amounts to be received over the life of the contracts are brought into income at their present value in the year the contracts are made. The discount rate used in determining present value was $8\frac{1}{2}\%$.

4. Financing Expenses

In March of 1968, the company issued 450,000 common shares in conjunction with \$900,000 8% Notes, Series A. The number of shares so issued represented 42.9% of the total number of shares outstanding.

The expenses of \$116,093 relating to this issue have been written off directly to deficit.

5. 8% Notes, Series A

(a) These notes mature on December 31, 1973 and are secured by a first fixed charge on all the issued and outstanding capital of R.D.M. Limited, a wholly-owned subsidiary, and a first floating charge on all of the other assets and undertaking of the company. The floating charge does not prevent the company from carrying on its business in the ordinary course or from entering into certain specified types of transactions.

(b) The trust deed provides for the establishment of a sinking fund for the redemption of Series A notes by December 31 in each of the following years (\$62,000 of the 1970 requirement of \$100,000 having been met by June 30, 1969):

	\$
1970	38,000
1971	150,000
1972	200,000
1973 (maturity date)	300,000
	<u>688,000</u>

6. 7% Subordinated Notes

These notes are due September 6, 1974. Of the authorized and unissued common shares, 61,539 shares are reserved at a price of \$3.25 per share against the conversion right attaching to these notes.

7. Dividend Restrictions

The provisions of the Trust Deed securing the 8% Notes, Series A prohibit the payment of dividends except out of the aggregate of:

(a) 75% of the consolidated net profit (as defined) after December 31, 1967 on a cumulative basis, and

(b) \$50,000

provided that such payments will not reduce consolidated working capital or shareholder's equity (both as defined) below \$500,000 and \$100,000 respectively.

8. Income Taxes

Losses of prior periods for tax purposes amounting to approximately \$635,000 are available to apply against future earnings.

9. Product Development Costs

These comprise salaries, travel expenses and other marketing costs related to the launching of new products. The unamortized balance at June 30, 1969 will be written off at approximately 20% per year. Expenses of this nature which are incurred in future years will be charged against earnings in the year incurred.

10. Capital Stock

Options have been granted to employees of the company to purchase 19,000 shares at \$6.50 per share, exercisable on or before December 31, 1973.

During the year ended June 30, 1969, 24,000 common shares were issued for the reduction of advances from shareholders of \$98,400, 10,000 common shares were issued for fixed assets with a stated value of \$100,000 and 100,000 common shares were issued for \$510,000 cash.

Subsequent to June 30, 1969, 50,200 common shares were issued for \$301,200 cash.

11. Interest on Long-Term Debt

\$28,500 interest on long-term debt incurred during the year ended December 31, 1964 was reflected as part of the acquisition costs of the wholly-owned subsidiary company R.D.M. Limited. Accordingly, this amount is not included in the statement of operations for that year.

12. Change in Method of Reporting

In 1965 R.D.M. Limited changed its method of accounting for outstanding merchandise coupons so as to reflect in the accounts the cost value of materials to be delivered. In previous years this liability was based on selling price. Had the company not changed its method of accounting, the consolidated net loss for the year 1965 would have been increased by approximately \$18,500.

13. Auditors' Qualification

The auditors' report for the year ended December 31, 1964 contained the following qualification:

"In accordance with generally accepted accounting principles, certain items which in total are of a substantial amount that are included in new product development expense, organization expense and acquisition costs of R.D.M. Limited should, in our opinion, not have been capitalized."

The capitalized amounts of new product development expense and organization expense totalled \$90,175. These have since been amortized at the rate of 20% per year, leaving \$9,017 to be amortized in the year ending June 30, 1970. Acquisition costs of R. D. M. Limited were \$115,034.

In view of the significance of these amounts, the auditors did not express an opinion on the 1964 earnings.

14. Leases

Annual rentals on real property leases which extend more than three years from June 30, 1969 approximate \$11,000. Such leases expire at varying dates before 1980.

15. Pro Forma Consolidated Balance Sheet

The pro forma consolidated balance sheet gives effect to the following:

- (a) The obtaining of Supplementary Letters Patent to be applied for after appropriate authorization by shareholders increasing the authorized common shares to 5,000,000 and creating 200,000 6% cumulative redeemable convertible preferred shares.
- (b) The issue and sale to underwriters of 200,000 6% cumulative redeemable convertible preferred shares for \$1,450,000 cash and the charging of a commission of \$101,500 on the sale to deficit.
- (c) The payment of expenses in connection with the issue estimated at \$35,000 and the charging of these to deficit.
- (d) The application of \$309,654 of the net proceeds of this issue to the reduction of bank indebtedness and the addition of \$1,003,846 to the companies' cash resources.

RAPID DATA SYSTEMS & EQUIPMENT LTD.

AUDITORS' REPORT

To the Directors of
Rapid Data Systems & Equipment Ltd.

We have examined the consolidated statements of earnings and deficit of Rapid Data Systems & Equipment Ltd. and its wholly-owned subsidiary company R.D.M. Limited for the years ended December 31, 1965 and 1966 and for the six months ended June 30, 1967 and have relied on the reports of other auditors for the year ended December 31, 1964. Our examination included a general review of accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the consolidated statements of operations and deficit present fairly the results of operations of the company for the years ended December 31, 1965 and 1966 and for the six months ended June 30, 1967, all in accordance with generally accepted accounting principles applied on a consistent basis except for the change described in note 12.

With respect to the year ended December 31, 1964, we are unable to express an opinion on the statements of earnings and deficit due to the qualification contained in the auditors' report for that year referred to in note 13.

TORONTO, CANADA

December 5, 1969

(Signed) GRAY, BUTCHER, FROST AND COMPANY
Chartered Accountants

CELLULOSE PRODUCTS CORPORATION

STATEMENT OF FINANCIAL POSITION

(Stated in United States dollars)

	December 31, 1968	August 31, 1969 (Unaudited)
Current Assets		
Cash	\$ 3,376	\$ 477
Accounts receivable less allowance in 1968 of \$3,000 for doubtful accounts	101,173	106,496
Inventories — at the lower of cost (first-in, first-out method) or market:		
Raw material	28,700	38,674
Work in process	12,212	22,417
Finished products	4,838	7,998
	45,750	69,089
Prepaid expenses	2,473	5,338
Total Current Assets	152,772	181,400
Fixed Assets — on the basis of cost — Notes A and C		
Machinery and equipment	197,754	233,895
Less allowance for depreciation	19,863	35,841
	177,891	198,054
Other Assets		
Stock subscription receivable — Note B	4,000	
Due from officers		4,384
	4,000	4,384
	<u>\$ 334,663</u>	<u>\$ 383,838</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable and accrued expenses	\$ 115,576	\$ 127,785
Payroll taxes	17,682	10,967
Income taxes	5,100	14,900
Current portion of long-term debt	31,004	39,722
Total Current Liabilities	169,362	193,374
Long-Term Debt — less current portion — Note C	145,845	146,661
Stockholders' Equity		
Common stock, par value \$1 a share:		
Authorized, issued and outstanding		
200,000 shares — stated value — Note B	47,795	47,795
Retained-earnings deficit	(28,339)	(3,992)
	19,456	43,803
	<u>\$ 334,663</u>	<u>\$ 383,838</u>

Commitments — Note D

(See notes to financial statements)

AUDITORS' REPORT

To the Board of Directors
Cellulose Products Corporation
South Gate, California

We have examined the statement of financial position of Cellulose Products Corporation as of December 31, 1968, and the related statement of operations and retained-earnings deficit for the year then ended (from commencement of operations). Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of financial position and operations and retained-earnings deficit present fairly the financial position of Cellulose Products Corporation at December 31, 1968, and the results of its operations and changes in stockholders' equity for the year then ended, in conformity with generally accepted accounting principles.

Los Angeles, California
March 13, 1969

(Signed) ERNST & ERNST

CELLULOSE PRODUCTS CORPORATION

STATEMENT OF OPERATIONS AND RETAINED-EARNINGS DEFICIT (Stated in United States dollars)

	Year ended December 31, 1968	Period of eight months ended August 31, 1968 1969 (Unaudited) (Unaudited)	
Net sales	\$ 585,250	\$ 216,734	\$ 575,681
Sundry income	150		150
	<u>585,400</u>	<u>216,734</u>	<u>575,831</u>
Costs and expenses:			
Cost of products sold	491,304	236,190	412,247
Selling, administrative and general expense	112,864	62,776	116,384
Interest expense	9,571	6,158	7,953
	<u>613,739</u>	<u>305,124</u>	<u>536,584</u>
Profit (Loss) before Taxes on Income	(28,339)	(88,390)	39,247
Federal and state taxes on income			14,900
			<u>24,347</u>
Net Profit (Loss)	\$ (28,339)	\$ (88,390)	\$ 24,347
Retained-earnings deficit at beginning of period			(28,339)
Retained-Earnings Deficit at End of Period	<u>\$ (28,339)</u>	<u>\$ (88,390)</u>	<u>\$ (3,992)</u>

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 1968 and eight months ended August 31, 1969 (unaudited)

NOTE A — In September 1967 Mr. J. H. Clive Symington entered into an agreement to acquire all of the outstanding capital stock of Cellulose Products Company in exchange for \$20,000 in cash and notes payable of \$171,138. In January 1968 (as of January 1, 1968), Cellulose Products Corporation (the Company), agreed to issue to Mr. Symington 160,000 shares of its \$1.00 par value common stock in exchange for the stock of Cellulose Products Company and certain other assets, and assumed the notes payable of \$171,138. The statement of operations and retained-earnings deficit includes the operations of Cellulose Products Company until December 28, 1968, at which date Cellulose Products Company was liquidated into the Company.

The purchase price of the stock of Cellulose Products Company exceeded the net worth of such company by \$103,903. Based upon an independent appraisal such excess was allocated to the plant and equipment accounts on the books of the Company.

NOTE B — Effect has been given in the accompanying financial statements as of December 31, 1968, to the issuance by the Company on January 3, 1969, of 160,000 shares of its common stock to Mr. J. H. Clive Symington, in exchange for the stock of Cellulose Products Company and certain other assets valued at \$4,615, and 40,000 shares of its common stock to three employees in exchange for cash and certain other assets.

NOTE C — Long-term debt consists of the following:

	December 31, 1968	August 31, 1969
6% note payable to individual — payable in 168 monthly instalments of \$1,175 (including interest) commencing January 1, 1969 — secured by machinery and equipment costing approximately \$154,000	\$ 133,220	\$ 129,081
7% note payable to individual — payable in monthly instalments of \$903 (plus interest) commencing February 1, 1968 — unsecured	29,793	22,571
Equipment purchase contracts	13,836	34,731
	<u>176,849</u>	<u>186,383</u>
Less current portion	31,004	39,722
	<u>\$ 145,845</u>	<u>\$ 146,661</u>

NOTE D — The Company occupies premises under a lease which expires in 1977. Annual rental under such lease is \$12,000 to December 31, 1969, \$13,200 from January 1, 1970 to December 31, 1974, and \$14,400 from January 1, 1975 to December 31, 1977. In addition, the Company is required to pay certain taxes and insurance under terms of the lease.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL OR RESCISSION

Sections 63 and 64 of The Securities Act, 1966 (Ontario), Sections 63 and 64 of The Securities Act, 1968 (Manitoba), Sections 70 and 71 of The Securities Act, 1967 (Saskatchewan) and Sections 63 and 64 of The Securities Act, 1967 (Alberta) provide, in effect, that where a security is offered to the public in the course of primary distribution;

- (a) a purchaser has the right to withdraw from the contract to purchase such security if written or telegraphic notice evidencing the intention of the purchaser not to be bound by such contract is received by the vendor not later than midnight on the second business day after the prospectus or amended prospectus offering such security is received or is deemed to be received by the purchaser or his agent; and
- (b) a purchaser has the right to rescind the contract to purchase such security by commencing an action within 90 days from the date of such contract or the date on which the prospectus or amended prospectus is received or deemed to be received by the purchaser or his agent, whichever is later if such prospectus, as of the date of receipt, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made.

Reference is made to the said Acts for the complete text of the provision under which the foregoing rights are conferred.

Sections 61 and 62 of the Securities Act, 1967 (British Columbia) provide in effect, that where a security is offered to the public in the course of primary distribution;

- (a) a purchaser has a right to rescind a contract for the purchase of a security, while still the owner thereof, if a copy of the last prospectus, together with financial statements and reports and summaries of reports relating to the securities as filed with the British Columbia Securities Commission, was not delivered to him or his agent prior to delivery to either of them of the written confirmation of the sale of the securities. Written notice of intention to commence an action for rescission must be served on the person who contracted to sell within 60 days of the date of delivery of the written confirmation, but no action shall be commenced after the expiration of three months from the date of service of such notice.
- (b) A purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus of any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

Reference is made to the said Act of British Columbia for the complete text of the provision under which the rights of purchasers in British Columbia are conferred.

CERTIFICATE OF THE COMPANY

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of The Securities Act, 1967 (British Columbia), by Part 7 of The Securities Act, 1967, (Alberta), by Part VIII of The Securities Act, 1967, (Saskatchewan), by Part VII of The Securities Act, 1968 (Manitoba) and by Part VII of The Securities Act, 1966 (Ontario) and by the respective regulations thereunder.

Dated: December 5, 1969.

(Signed) CLIVE RAYMOND
Chief Executive Officer

(Signed) W. J. SMITH
Chief Financial Officer

(Signed) CLIVE RAYMOND
Director

(Signed) W. J. SMITH
Director

(Signed) H. T. MARSHALL
Director

(Signed) B. M. BENITZ
Director

(Signed) J. W. N. THOMAS
Director
by his agent
CLIVE RAYMOND

(Signed) D. GOODMAN
Director
by his agent
CLIVE RAYMOND

(Signed) R. C. W. MAURAN
Director
by his agent
CLIVE RAYMOND

CERTIFICATE OF THE UNDERWRITER

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of The Securities Act, 1967 (British Columbia), by Part 7 of The Securities Act, 1967 (Alberta), by Part VIII of The Securities Act, 1967 (Saskatchewan), by Part VII of The Securities Act, 1968 (Manitoba) and by Part VII of The Securities Act, 1966 (Ontario) and by the respective regulations thereunder.

Dated: December 5, 1969.

MIDLAND-OSLER SECURITIES LIMITED

(Signed) G. C. SPEAKMAN
Director

The following includes the name of every person having an interest either directly or indirectly to the extent of not less than 5% in the capital of Midland-Osler Securities Limited: E. M. Kennedy, David B. Weldon, R. G. McCulloch, J. T. Skelly, E. H. Gunn, W. A. Stewart, C. W. McBride, T. W. Meredith and W. A. Dakin.

SCHEDULE

6% CUMULATIVE REDEEMABLE CONVERTIBLE PREFERRED SHARES

The Preferred Shares shall have attached thereto the following preferences, rights, restrictions, conditions and limitations, that is to say:—

(1) The holders of the Preferred Shares shall be entitled to receive as and when declared by the board of directors out of the moneys of the Company properly applicable to the payment of dividends fixed, preferential, cumulative cash dividends at the rate of six per cent (6%) per annum on the amounts from time to time paid up thereon, payable in half-yearly instalments in lawful money of Canada on March 31, and September 30 in each year (each of which dates is hereafter called a "dividend payment date"), the first of such dividends to become payable March 31, 1970. Such dividends shall accrue from such date or dates as may be determined by the board of directors of the Company prior to the issue of such shares. Cheques of the Company payable at par at any branch of the Company's bankers for the time being in Canada (far northern branches excepted) may be issued in respect of such dividends and payment thereof shall satisfy such dividends. If, on any dividend payment date, the dividend payable on such date is not paid in full on all the Preferred Shares then issued and outstanding, such dividend or the unpaid part thereof shall be paid on a subsequent date or dates determined by the board of directors on which the Company shall have sufficient moneys properly applicable to the payment thereof. The holders of the Preferred Shares shall not be entitled to any dividends other than or in excess of the preferential dividends for which provision is expressly made herein.

(2) In the event of the liquidation, dissolution or winding up of the Company or any other distribution of assets of the Company amongst its shareholders for the purpose of winding up its affairs, the holders of the Preferred Shares then outstanding shall be entitled to receive, in lawful money of Canada, the amount paid up on such Preferred Shares, together with an amount equal to all dividends, if any, accrued thereon up to the date of distribution and then remaining unpaid, whether or not earned or declared (which dividends, for such purpose, shall be calculated as if such dividends were accruing from day to day), the whole before any amount shall be paid to, or any assets of the Company distributed amongst, holders of the common shares without nominal or par value or of any other shares of the Company ranking junior to the Preferred Shares. After payment to the holders of the Preferred Shares of the amounts so payable to them, they shall not be entitled to share in any further distribution of the assets of the Company.

(3) Subject to the provisions of subsection (3) of section 49 of the Canada Corporations Act, the Company may at any time or from time to time purchase for cancellation out of capital or pursuant to the provisions of section 61 of the said Act, in the open market (including purchase through or from a registered dealer or a member of a recognized stock exchange) or by invitation for tenders addressed to all the holders of record of Preferred Shares, the whole or any part of the Preferred Shares outstanding from time to time, at the lowest price at which, in the opinion of the board of directors of the Company, such shares are obtainable, but such price shall not in any case exceed the price then payable upon redemption of such shares respectively, plus brokerage costs. If, upon any invitation for tenders under the provisions of this paragraph (3), the Company shall receive tenders of Preferred Shares at the same lowest price which the Company may be willing to pay in an aggregate number greater than the number which the Company is then prepared to purchase, the Preferred Shares so to be purchased shall be purchased from each of the holders of Preferred Shares who shall have submitted tenders at the said same lowest price, as nearly as possible **pro rata** (disregarding fractions) according to the number of Preferred Shares so tendered by each of such holders. From and after the date of purchase of any Preferred Shares, the shares so purchased shall be cancelled and, if such purchase shall have been made out of capital pursuant to the provisions of subsection (3) of section 49 of the Canada Corporations Act, the authorized and issued capital of the Company shall be thereby decreased accordingly upon due compliance with the provisions of section 62 of the said Act.

(4) Subject to the provisions of subsection (3) of section 49 of the Canada Corporations Act, the Company may at its option redeem out of capital or pursuant to the provisions of section 61 of the said Act the whole at any time or any part from time to time of the Preferred Shares from time to time outstanding on payment, in lawful money of Canada for each share to be redeemed of the

“redemption price” which shall be the sum of (i) the amount paid up on such share, (ii) an amount equal to all dividends, if any, accrued thereon up to the date fixed for redemption and then remaining unpaid whether or not declared and whether or not there are moneys of the Company properly applicable to the payment of dividends (which dividends, for such purpose, shall be calculated as if such dividends were accruing from day to day), and (iii) an amount which, if the date fixed for redemption is prior to December 1, 1970 shall be \$.45 per share, if the date fixed for redemption is after November 30, 1970 and prior to December 1, 1971 shall be \$.35 per share, if the date fixed for redemption is after November 30, 1971 and prior to December 1, 1972 shall be \$.30 per share, if the date fixed for redemption is after November 30, 1972 and prior to December 1, 1973 shall be \$.20 per share, if the date fixed for redemption is after November 30, 1973 and prior to December 1, 1974 shall be \$.15 per share and if the date fixed for redemption is after November 30, 1974 and prior to December 1, 1975 shall be \$.05 per share and if the date fixed for redemption is after November 30, 1974 there will be no premium payable on redemption.

If part only of the then outstanding Preferred Shares is at any time to be redeemed, the Preferred Shares so to be redeemed shall be selected by lot in such manner as the board of directors or the transfer agent appointed by the Company in respect of the Preferred Shares shall decide or, if the board of directors so determines, may be redeemed **pro rata** from each of the holders of Preferred Shares, fractions of shares to be disregarded.

Notice of any such redemption shall be given by the Company not less than thirty (30) days prior to the date fixed for redemption by mailing, by ordinary unregistered mail, such notice to the registered holders of the Preferred Shares to be redeemed at their respective addresses appearing in the books of the Company, or, in the event of the address of any shareholder not so appearing, then to the last known address of such shareholder. Accidental failure or omission to give such notice to one (1) or more of such holders shall not affect the validity of such redemption as to the other holders, but upon such failure or omission being discovered notice shall be given forthwith and shall have the same force and effect as if given in due time. Such notice shall set out the redemption price and the date fixed for redemption and, if part only of the Preferred Shares held by the person to whom any such notice is addressed is to be redeemed, the number of such Preferred Shares so held by such person so to be redeemed and a short statement of the conversion rights, if any, then applicable. On or after the date fixed for redemption, the Company shall pay or cause to be paid the redemption price to or to the order of the registered holders of the Preferred Shares to be redeemed on presentation and surrender, at such place or places within Canada designated in such notice, of the certificates representing the Preferred Shares so called for redemption and the certificates for such shares shall thereupon be cancelled and the shares represented thereby shall thereupon be and be deemed to be redeemed. Such payment may be made by cheque payable at par at any branch of the Company's bankers for the time being in Canada (far northern branches excepted). If less than all the Preferred Shares represented by any such certificate are redeemed, a new certificate shall be issued, without charge to the holder in respect of the unredeemed Preferred Shares represented by such certificate. From and after the date fixed for redemption, the holders of the Preferred Shares called for redemption shall cease to be entitled to dividends and shall not be entitled to exercise any of the rights of shareholders in respect of such shares, unless payment of the redemption price shall not be made upon presentation and surrender of such certificates in accordance with the foregoing provisions, in which event the rights of the holders shall remain unaffected. At any time after the mailing of notice of its intention to redeem any Preferred Shares, the Company shall have the right to deposit the redemption price of such Preferred Shares so called for redemption, or of such of the said shares represented by certificates which have not at the date of such deposit been surrendered by the holders thereof in connection with such redemption, to the credit of a special account in any chartered bank or trust company in Canada, of which notice shall have been or shall be given to the holders of the Preferred Shares so called for redemption, to be paid, on or after the date fixed for redemption, without interest, to or to the order of the respective registered holders of such Preferred Shares called for redemption, on presentation and surrender to such chartered bank or trust company of the certificates representing the same. Upon such deposit being made or upon the date specified for redemption in such notice, whichever is the later, the Preferred Shares in respect of which such deposit shall have been made shall be redeemed and the rights of the holders thereof, after such deposit or such redemption date, as the case may be, shall be limited to the right to receive, without interest, from the depositary their proportionate part of the amount so deposited, on presentation and surrender of their respective certificates. Any interest allowed on any such deposit shall belong to the Company. If any redemption hereunder shall have been made out of capital

pursuant to the provisions of subsection (3) of section 49 of the Canada Corporations Act, the authorized and issued capital of the Company shall be thereby decreased accordingly upon due compliance with the provisions of section 62 of the said Act.

(5) So long as any of the Preferred Shares are outstanding the Company shall, on or before the first (1st) day of March in each year, commencing March 1, 1977, set apart a sum equal to the lesser of (i) two hundred and fifty thousand dollars (\$250,000.00) or (ii) ten per cent (10%) of the consolidated net income (as hereinafter defined) for the preceding fiscal year of the Company after deducting therefrom the amounts of dividends on the Preferred Shares and on any other shares of the Company ranking junior to the Preferred Shares which may have been paid thereon during the fiscal year in question, and the amount of accumulated and unpaid dividends on any such shares for any preceding year or years to the extent that deduction has not been previously made for such accumulated and unpaid dividends in calculating sinking fund requirements, but before any dividend is paid or set apart for payment on the Common Shares. Subject to the provisions of subsection (3) of section 49 and of section 61 of the Canada Corporations Act, the Company shall use and apply the moneys from time to time in the sinking fund either in the purchase of Preferred Shares as provided in paragraph (3) hereof or in the redemption of Preferred Shares as provided in paragraph (4) hereof; provided, however, that the Company shall not be required to use sinking fund moneys for such purchase or redemption of Preferred Shares unless the total amount of moneys then in the sinking fund is at least fifty thousand dollars (\$50,000.00). The Company may at any time anticipate the whole or any part of its sinking fund obligations by purchasing or redeeming Preferred Shares as herein provided and charging the cost of such Preferred Shares in reduction of the amounts of any sinking fund obligations thereafter becoming due. Pending the application of sinking fund moneys as such herein provided the same may be used in the business of the Company and need not be kept separate from the other moneys of the Company.

If such purchase or redemption is made pursuant to the provisions of subsection (3) of section 49 of the Canada Corporations Act, then upon filing of the notice provided in section 62 of the Canada Corporations Act, the authorized and issued capital of the Company shall be thereby decreased and the shares so redeemed or purchased for cancellation are thereupon cancelled.

"Consolidated net income" as used in this paragraph (5) means the aggregate of the net incomes of the Company and of each and every corporation which is a subsidiary of the Company at the close of the fiscal year in question (after all charges and expenses and taxes, including taxes on income) determined on a consolidated basis in accordance with generally accepted accounting principles and after making due allowance for the minority interest (if any) in each subsidiary included in the consolidation.

(6) The Preferred Shares shall be convertible into common shares without nominal or par value in the capital of the Company (hereinafter called the "Common Shares") on the following terms and conditions:

(A) The holders of Preferred Shares shall have the right at their option at any time up to but not after the close of business on December 1, 1976, subject as hereinafter provided, to convert fully paid Preferred Shares into such number of Common Shares of the Company as shall be determined pursuant to the provisions of clauses (E) and (F) of this paragraph (6). "Close of business" shall mean the normal closing hour of the office of the transfer agent of the Company for the Preferred Shares at which such conversion right is to be exercised.

(B) The conversion right herein provided for may be exercised by notice in writing given to the transfer agent of the Company for the Preferred Shares accompanied by the certificate or certificates representing the Preferred Shares in respect of which the holder thereof desires to exercise such right of conversion. Such notice shall be signed by the person registered on the books of the Company as the holder of Preferred Shares in respect of which such right is being exercised or by his duly authorized attorney and shall specify the number of Preferred Shares which the holder desires to have converted. Upon the said transfer agent receiving such notice accompanied by such certificate or certificates the Company shall issue or cause to be issued certificates for the Common Shares issuable upon conversion to the registered holder of the Preferred Shares represented by such certificate or certificates, or in such name or names as such registered holder may direct in writing, provided that such registered holder shall pay any applicable transfer taxes. If less than all the Preferred Shares represented by any

certificate or certificates accompanying any such notice are to be converted, the holder shall be entitled to receive, without charge, a new certificate representing the Preferred Shares comprised in the certificate or certificates surrendered as aforesaid which are not to be converted. No adjustments shall be made for dividends accrued on any Preferred Shares that shall be converted or for dividends on any Common Shares that shall be issuable upon conversion.

(C) In the case of any Preferred Shares which may be called for redemption, the right of conversion thereof shall, notwithstanding anything herein contained, cease and terminate at the close of business on the third (3rd) business day prior to the date fixed for redemption, provided, however, that if the Company shall fail to redeem such Preferred Shares in accordance with the notice of redemption the right of conversion shall thereupon be restored and continued as before.

(D) The right of a holder of Preferred Shares to convert the same into Common Shares shall be deemed to have been exercised, and the registered holders of Preferred Shares so converted (or any person or persons in whose name or names any such registered holder of Preferred Shares shall have directed certificates representing the Common Shares issuable on conversion to be issued) shall be deemed to have become holders of such Common Shares of record for all purposes, on the respective dates of surrender of certificates representing the Preferred Shares to be converted accompanied by notice in writing, as provided in clause (B) hereof, notwithstanding any delay in the delivery of certificates representing such Common Shares; but should any certificate for Preferred Shares be duly surrendered for conversion during a period when the registers of transfers of the Common Shares are properly closed, the registered holders thereof (or other person or persons as aforesaid) shall be deemed to become holders of such Common Shares of record immediately upon the reopening of such registers of transfers.

(E) The basic Conversion Rate shall be one (1) Common Share as presently constituted for each Preferred Share to be converted as herein provided.

(F) The Conversion Rate shall be subject to adjustment from time to time as follows:

(i) In case the Company shall at any time subdivide or consolidate the Common Shares into a greater or lesser number of shares, the Conversion Rate shall be increased in the case of a subdivision or decreased in the case of a consolidation to a number which shall bear the same relation to the Conversion Rate in effect immediately prior to such subdivision or consolidation as the total number of Common Shares outstanding immediately after such subdivision or consolidation shall bear to the total number of Common Shares outstanding immediately prior to such subdivision or consolidation.

(ii) In case of any declaration of a dividend on the Common Shares payable in shares in the capital of the Company or otherwise than in money (hereinafter called a "stock dividend") or in case of any reclassification of the Common Shares (including any reclassification into shares with par value) or in case of any amalgamation, consolidation or merger of the Company with or into any other corporation or in case of any distribution of properties and assets of the Company by way of reduction of capital, each Preferred Share shall after such stock dividend, reclassification, amalgamation, consolidation, merger or distribution be convertible into the number of shares or other securities or property of the Company, or such continuing, successor or purchasing corporation, as the case may be, to which a holder of the number of Common Shares as would have been issued if such Preferred Shares had been converted immediately prior to the time of such stock dividend, reclassification, amalgamation, consolidation, merger or distribution would have been entitled upon such stock dividend, reclassification, amalgamation, consolidation, merger or distribution; and no such stock dividend, reclassification, amalgamation, consolidation, merger or distribution shall be carried into effect unless, in the opinion of the board of directors, all necessary steps shall have been taken to ensure that the holders of the Preferred Shares shall thereafter be entitled to receive such number of shares or other securities or property of the Company or such continuing successor or purchasing corporation, as the case may be, subject to adjustment thereafter in

accordance with provisions similar, as nearly as may be, to those contained in this clause (F).

(iii) The provisions of this clause (F) shall apply to successive stock dividends, reclassifications, amalgamations, consolidations, mergers and distributions.

(iv) Whenever the Conversion Rate shall be adjusted as provided in this clause (F), the Company shall forthwith file with the transfer agent of the Company for the Preferred Shares a certificate signed by the President or a Vice-President and the Secretary-Treasurer of the Company setting forth the Conversion Rate as so adjusted and, in reasonable detail, the facts requiring and the manner of computing such adjustment and shall send a written notice (in the manner provided in paragraph (4) hereof for the giving of notice of redemption) setting forth the amount of such adjustment to the holders of the Preferred Shares then outstanding.

(v) In case a state of fact occurs wherein, in the opinion of the board of directors of the Company, the provisions of this clause (F) are not strictly applicable, or if strictly applicable, would not fairly protect the conversion rights of the holders of the Preferred Shares in accordance with the intent and purposes hereof, then the board of directors of the Company shall make an adjustment in the application of such provisions so as to protect such conversion rights as aforesaid.

(G) No holder of a Preferred Share shall be entitled to receive on conversion of any such share any certificate representing a fraction of a Common Share. In any cases where fractions of Common Shares would be involved, the Company shall issue or cause to be issued in respect of such fractions a non-voting and non-dividend bearing scrip certificate or certificates transferable by delivery entitling the holder thereof and of other similar certificates aggregating one (1) full share, upon surrender of such certificates for consolidation at such place as may be designated therein, to obtain from the Company a full share and to receive a share certificate therefor. If the aggregate number of shares represented by scrip certificates surrendered for consolidation is in excess of a number of full shares, the Company shall at the time of delivery of certificates for the number of full shares called for by the surrender of scrip certificates issue a new scrip certificate for an amount equal to such excess. Such scrip certificates shall be in such form and terms and shall be subject to such terms and conditions as the Company may determine and will provide that such certificates shall be null and void on and after a date or dates to be fixed by the board of directors of the Company but no such date shall be less than one (1) year following the date of issuance of the scrip certificate concerned.

(H) The Company shall at all times on and prior to December 1, 1976 reserve out of its unissued Common Shares a sufficient number of such shares to enable all of the Preferred Shares outstanding to be converted upon the basis and upon the terms and conditions herein provided for.

(I) All Common Shares issued on the conversion of Preferred Shares (including Common Shares issued upon the consolidation of scrip certificates which result from conversions) shall be fully paid and non-assessable. Nothing herein contained shall affect or restrict the right of the Company to increase the number of its Common Shares in accordance with the provisions of the Canada Corporations Act.

(J) For the purpose of this paragraph (6) "Conversion Rate" at any time shall mean the number of Common Shares of the Company into which at such time one (1) Preferred Share shall be convertible in accordance with the provisions of this paragraph (6).

(7) The Company shall not, without the prior approval of the holders of the Preferred Shares given as hereinafter specified, declare or pay any dividends (including stock dividends in shares of the Company ranking junior to the Preferred Shares) on any shares of the Company ranking junior to the Preferred Shares, or redeem or purchase or make any capital distribution in respect of any shares of the Company ranking junior to the Preferred Shares (except out of the net cash proceeds of a substantially concurrent issue of shares of the Company ranking junior to the Preferred Shares), unless all accrued dividends on the Preferred Shares then issued and outstanding shall have been declared and paid or set apart for payment up to and including the last half-yearly dividend payable on the Preferred Shares immediately prior to the date of such declaration or payment or setting apart or call for redemption or purchase.

(8) No class of shares may be created or issued ranking as to capital or dividends prior to or on a parity with the Preferred Shares without the prior approval of the holders of the Preferred Shares given as hereinafter specified nor shall the authorized amount of Preferred Shares be increased without such approval.

(9) The holders of the Preferred Shares shall not be entitled as such to receive notice of or to attend any meeting of the shareholders of the Company or to vote at any such meeting unless and until the Company from time to time shall fail to pay in the aggregate four (4) half-yearly dividends on the Preferred Shares on the dates on which the same should be paid according to the terms hereof and unless and until four (4) half-yearly dividends on such shares shall remain outstanding and be unpaid whether or not consecutive and whether or not such dividends have been declared and whether or not there are any moneys of the Company properly applicable to the payment of dividends; thereafter but only so long as any dividends on the Preferred Shares remain in arrears the holders of the Preferred Shares shall be entitled to receive notice of and to attend all meetings of shareholders of the Company and shall have one (1) vote thereat for each Preferred Share held by each of such holders respectively.

(10) If and each time the Company issues to the holders of its Common Shares rights to subscribe for shares of the Company or securities convertible into or exchangeable for shares of the Company or securities carrying options or rights to subscribe for shares of the Company, the Company shall at the same time issue to the holders of Preferred Shares then outstanding rights to subscribe for shares or securities of the Company on the same basis as would have been the case had the holders of the Preferred Shares immediately prior to the issue of such rights converted all of the outstanding Preferred Shares into Common Shares on the basis of the Conversion Rate then in effect.

(11) The provisions of paragraphs (1) to (10) inclusive, of this paragraph (11) and of paragraph (12) or any of them may be deleted, varied, modified, amended or amplified by supplementary letters patent but only with the prior approval of the holders of the Preferred Shares given as hereinafter specified in addition to any other approval required by the Canada Corporations Act.

(12) The approval of the holders of the Preferred Shares with respect to any and all matters referred to herein may be given by compromise or arrangement under the Canada Corporations Act or may be given in writing by the holders of not less than two-thirds ($\frac{2}{3}$) of the Preferred Shares for the time being outstanding or by resolution duly passed and carried by not less than two-thirds ($\frac{2}{3}$) of the votes cast on a poll at a meeting of the holders of the Preferred Shares duly called and held for the purpose of considering the subject matter of such resolution and at which holders of not less than a majority of all Preferred Shares then outstanding are present in person or represented by proxy in accordance with the by-laws of the Company; provided, however, that if at any such meeting, when originally held, the holders of at least a majority of all Preferred Shares then outstanding are not present in person or so represented by proxy within thirty (30) minutes after the time fixed for the meeting, then the meeting shall be adjourned to such date, being not less than fifteen (15) days later, and to such time and place as may be fixed by the chairman of such meeting and, at such adjourned meeting, the holders of Preferred Shares present in person or so represented by proxy, whether or not they hold more or less than a majority of all Preferred Shares then outstanding, may transact the business for which the meeting was originally called, and a resolution duly passed and carried thereat by not less than two-thirds ($\frac{2}{3}$) of the votes cast on a poll at such adjourned meeting shall constitute the approval of the holders of the Preferred Shares hereinbefore mentioned. Notice of any such original meeting of the holders of the Preferred Shares shall be given not less than fourteen (14) days prior to the date fixed for such meeting and shall specify in general terms the purpose for which the meeting is called, and notice of any such adjourned meeting shall be given not less than ten (10) days prior to the date fixed for such adjourned meeting, but it shall not be necessary to specify in such notice the purpose for which the adjourned meeting is called. The formalities to be observed with respect to the giving of notice of any such original meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed in the by-laws of the Company with respect to meetings of shareholders. On every poll taken at any such original meeting or adjourned meeting the holders of Preferred Shares present in person or so represented by proxy shall be entitled to one (1) vote in respect of each Preferred Share held by each of such holders respectively.